GK SOFTWARE

January to June 2020

Interim Report

Simply Retail.

Summary of Consolidated Results

		30.6.2020	30.6.2019	31.12.2019	Change (2019/2020)
Sales	EUR K	**56,161**	50,269	115,448	11.7 %
Operating performance	EUR K	**56,295**	50,269	115,448	12.0 %
Total operating revenue	EUR K	**58,038**	51,449	119,285	12.8 %
EBIT	EUR K	**1,957**	(4,997)	3,430	—
EBIT margin (on sales)	%	**3.5**	(9.9)	3.0	—
EBIT margin (on total operating revenue)	%	**3.4**	(9.7)	2.9	—
EBITDA	EUR K	**6,235**	(586)	12,256	—
EBT	EUR K	**972**	(5,805)	1,233	
Net loss for the period	EUR K	**(133)**	(6,486)	(3,139)	97.9 %
Earnings per share (weighted)	EUR	**(0.08)**	0.48	(1.60)	—
Earnings per share (diluted)	EUR	**(0.08)**	0.48	(1.60)	—
Equity ratio	%	**40.1**	36.2	37.1	—
Net debt	EUR K	**539**	9,611	11,907	(94.4) %
Employees		**1,123**	1,147	1,247	(2.1) %

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A | To the shareholders

Letter from the Management Board

Dear shareholders,

The GK Software Group[1] was able to continue the development recorded during the last two quarters during the second quarter of 2020 too and continued to increase both its turnover and profitability. Overall, turnover during the first six months of the year rose by 11.7% to a figure of EUR 56.16 million (H1 2019: EUR 50.23 million). This was caused by very strong business with our existing customers. EBITDA improved from EUR (0.59) million in the same period in the previous year to a figure of EUR 6.24 million now. This obvious growth in profitability is clear evidence of the fact that our efficiency enhancement programme, which was launched one year ago, has already proved to be effective. This is also reflected in the EBIT figures, which were noticeably positive once again during the first half of the year at EUR 1.96 million (H1

1 – The expression GK Software always refers to the corporate Group in the following text. "The Company" is also used as a synonym. When GK Software SE is used, it exclusively refers to the individual company.

2019: EUR (4.99) million). Overall, these results underline the fact that the intensive measures that we introduced during the past financial year to increase efficiency and safeguard earnings have formed the basis for being able to operate successfully, even in the change in general conditions caused by Covid-19.

So far, we have mainly only noticed any negative impact from the global pandemic in our new customer business. Sales cycles have been extended here; however, we believe that this has been caused less by the current economic uncertainties than the switch to remote sales and the lack of any personal contact. As only a few projects have been completely halted and our sales organisation is continuing to actively process the opportunities, we assume that we will be able to make up this ground at a later date. Regardless of the situation, we were able to gain four new projects during the first half of the year, including the switch by one existing customer to OmniPOS and one euroSUITE project involving our subsidiary AWEK. We will complete one of the new projects in South Africa. We will equip about 500 new stores covered by all the new projects during the next few months.

Our AIR platform (Artificial Intelligence for Retail), which was officially launched last year, and the solutions based on it for Dynamic Pricing and Personalisation have also developed in a very positive manner. We are currently handling 18 projects or proofs-of-concept on this platform.

German fiscalisation is a topic that is currently right at the forefront of thinking in the retail sector. We are in an excellent position here with our wholly owned subsidiary, DF Deutsche Fiskal GmbH, and we assume that our cloud solution, which has been jointly developed with Bundesdruckerei (Federal Printing Office), will be finished within the deadline. Our modern SaaS solution has triggered great interest both with major retailers and with partners, as it has significant advantages over hardware-based concepts. We therefore assume that we will be able to achieve our goals in terms of the market share that we are seeking, even if it is still unclear at the moment whether the “safe harbour rule” will expire on 1 October 2020 or on 31 March 2021 and this issue will therefore already have an effect on the Company’s turnover this year.

As part of our efficiency enhancement programme, we have focused even more clearly on making investments in research and development in order to not only continue expanding our market position, but also concentrate our efforts on areas where it is possible to achieve success quickly. As a result, three core issues continued to be our major focus during the first half of 2020, in addition to completing the fiscalisation solution. 1. Expanding our cloud4retail cloud platform; 2. Continuing to develop our fuel station and convenience solution called GK Drive, which has now started productive operations in the USA; 3. Extending our self-scanning and buy-online-pick-up-in-store services related to the Mobile Consumer Assistant (MCA) world. We are also continuing to work on customised and modular AI processes for the retail sector based on our AIR platform (Artificial Intelligence for Retail).

The number of units installed and operating various versions of our store solutions continued to grow to a current figure of 325,000 during the reporting period. In addition, there are the installations for the other solutions that are made available by our corporate Group. The apps available in the Mobile Customer Assistant field have been downloaded by more than 4 million consumers in all, for example. The TransAction+ solution manages the electronic payment transactions on about 100,000 terminals in the USA and the Real-Time Decision Engine developed by prudsys AG and based on artificial intelligence is being used by about 100 customers. As in previous years, we were able to enhance our business relations with almost all our existing GK/Retail customers, as our customers are permanently adapting their solutions to new requirements. Rollouts in current projects, in other countries as well as the launch of pilot schemes all contributed to the growth in the number of installations.

It is still not yet possible to provide a well-founded outlook for the 2020 financial year in the current situation, which is being dominated by the Covid-19 crisis. However, we would once again emphasise that we would have maintained our medium-term forecast up to the end of the 2020 financial year without any restrictions if the crisis had not occurred.

It will be important as regards the ongoing course of business during the year to see how quickly our new business can be revitalised and whether the projects, which are currently being processed, can be concluded this year. If some degree of normalisation has occurred again by the end of the third quarter, the effects of the first half of the year on the end-of-year figures could possibly be compensated for in terms of the year as a whole or at least be mitigated considerably. We are naturally continuing to pursue sales operations, even in the current difficult situation, and are holding in-depth discussions with potential customers from Germany and abroad. However, it remains to be seen when current invitations to tender can be concluded and whether further growth momentum will come from our existing business or whether processes will be delayed in the longer term.

Even if the first six months have gone very well and there are good signs for the third quarter we are unable to derive any forecasts for the complete year at this time, as there are fears that the economy could be significantly disrupted for months by the Covid-19 pandemic and this will have a negative effect on the overall economy for an indefinite period. Based on the assumptions and influencing factors already outlined in the 2019 financial report, we are expecting a slight increase in turnover revenues and a significant improvement in EBIT for the GK Software Group in 2020.

As long as there is no clarity about how long the global disruption to the overall economy will continue, we believe that it is too early to issue a new medium-term forecast beyond 2020.

We are delighted that you are supporting GK Software SE and its pathway of growth and we would like to thank you for placing your ongoing trust in the Company.

Rainer Gläss
Chief Executive Officer

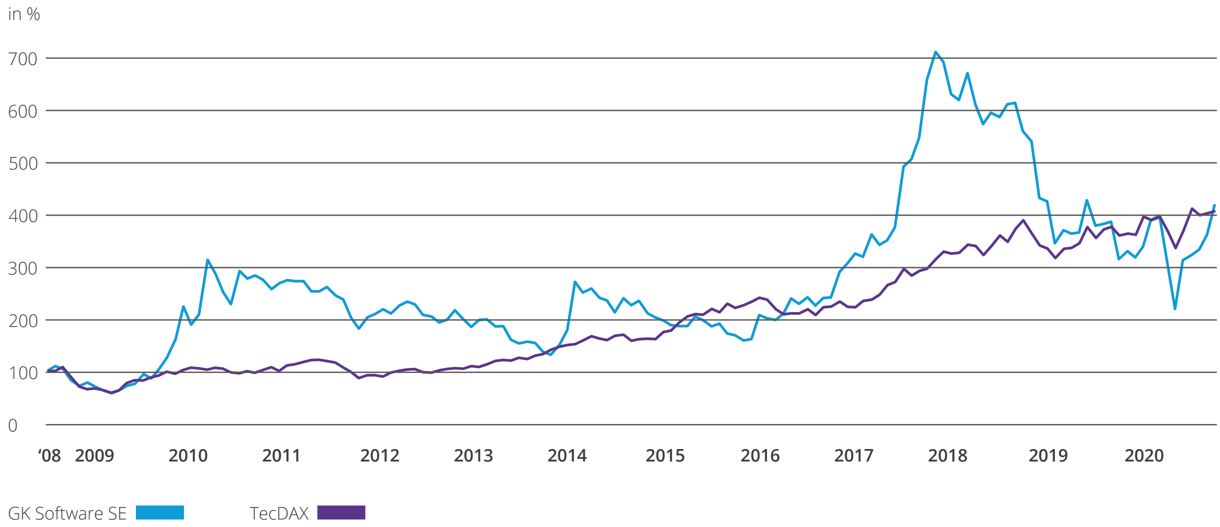
André Hergert
Chief Financial Officer

GK Software SE Shares

Basic data

Share price development (indexed)

F.01



Basic data on 30 June 2020

T.01

Securities Identification Number (WKN)	757142
ISIN	DE0007571424
Trading symbol	GKS
GK Software AG IPO	19 June 2008
Type of shares	Ordinary stock in the name of the holder without any nominal value (individual share certificates)
Trading markets	Frankfurt and XETRA
Market segment	Regulated Market (Prime Standard)
Designated sponsor	ICF Bank AG
Number of shares	2,042,450
Share capital	EUR 2,042,450
Free float	44.92 %
Highest price in 2020	EUR 75.00 (31 January 2020)
Lowest price in 2020	EUR 35.00 (19 March 2020)

Summary/share performance

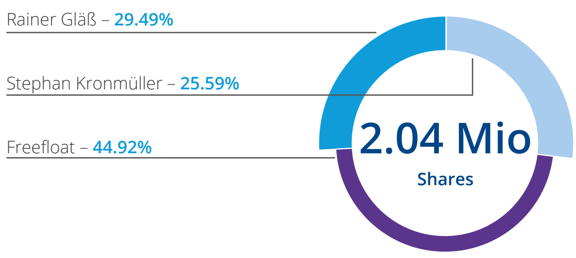
GK Software SE shares, which are listed on the Prime Standard section of the Frankfurt Stock Exchange, were subject to a considerable fall in value in conjunction with the general situation on stock markets in connection with the Covid-19 pandemic, but was able to recover again after this. The shares were worth EUR 63.00 at the end of the reporting period. This corresponded to market capitalisation of EUR 128.67 million at the end of the first half of 2020.

Shareholder structure

GK Software SE has an extremely stable shareholder base and this is enabling the Company to achieve long-term and sustained development.

Shareholder structure on 30 June 2020

F.02



The shareholder structure on the reporting date (30 June 2020) was as follows, according to the information made available to us:

Rainer Gläss, a company founder and the CEO, directly and indirectly held 29.49 percent of the shares. Stephan Kronmüller, also a company founder and the former Head of Technology and Development, directly and indirectly held 25.59 percent of shares. This meant that 44.92 percent of the shares were in free float on 30 June 2020.

The Company was informed about the following holdings in GK Software SE, which exceeded the 3 percent threshold:

T.02 Holdings exceeding the threshold

Correct on	Shareholder	Proportion in %
17.3.2016 [1]	Scherzer & Co. AG, Köln	6.36
22.9.2016	Wilhelm K. T. Zours (of which, among others, Deutsche Balaton Aktiengesellschaft, Heidelberg with 3.18%)	6.55

1 – Initial notification of 5.23% on 6 March 2012. Information on the current portfolio by the shareholder on 17 March 2016.

Directors' dealings in 2020

T.03 Directors' dealings

Date	Person trading	Position	Activity	Volume EUR	Market price EUR
12.6.2020	André Hergert	Management Board	Purchase	113,310.00	33.98

Investor relations

GK Software deliberately chose to have its shares listed in the most stringently regulated sector at Deutsche Börse, the Prime Standard, for its flotation in the summer of 2008. The highest possible degree of transparency towards its investors and all the other participants in the capital markets has been one of the most important Company principles from the outset.

André Hergert, the CFO, is responsible for investor relations, which has been assigned its own department under the leadership of Dr René Schiller. This guarantees that any enquiries from investors and potential investors are answered immediately.

GK Software AG also attaches great importance to providing a continual flow of information for the future. Among other things, this involves the completion of quarterly reports and extensive half-yearly and annual reports in German and English, a finance calendar, compulsory announcements, which have to be published immediately, and corporate news items. The accounting system has been adapted to the international IFRS accounting standards and also meets investors' requirements for information. As in previous years, GK Software will hold its analysts' conference during the Frankfurt Equity Capital Forum in 2020 again. Investor and press roadshows also take place at regular intervals, so that the Company remains in permanent contact with the capital markets.

B

Interim group management report

Consolidated Management Report

The Company's Business Model

Subject matter and purpose

GK Software SE[1] is one of the world's leading technology companies for retail sector software with a special focus on solutions for large and very large retail companies with many local stores. GK Software SE and its predecessor company, G&K Datensysteme GmbH, which was founded by Rainer Gläss and Stephan Kronmüller and changed its name to GK Software AG in 2001, have been successfully operating in the marketplace for 30 years. The Company's flotation took place in the Prime Standard segment of the Frankfurt Stock Exchange in 2008. GK Software AG was transformed into GK Software SE on 19 January 2018.

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Group structure and holdings

The Group's headquarters have been located in Schöneck/Vogtl. since it was founded. Alongside its administration department, the product development department, project management and third-level support facilities are all based at this

Group structure of GK Software SE

F.03

GK SOFTWARE

100%	GK Software USA Inc.
100%	OOO GK Software RUS
100%	GK Software Africa PTY Ltd.
100%	EUROSOFTWARE s.r.o.
100%	TOV Eurosoftware-UA
100%	Storeweaver GmbH
100%	AWEK Microdata GmbH
100%	AWEK GmbH
80,12%	prudsys AG
100%	DF Deutsche Fiskal GmbH

site. GK Software SE has two business sites in Berlin and they are primarily responsible for the marketing, sales and partner activities; parts of the software development work are also based there. The branch in Jena started operating in 2018 so that the Company can benefit from the excellent opportunities for gaining personnel in this high-tech region in the state of Thuringia.

The Group's second largest business location has been situated in Plzen in the Czech Republic for more than 20 years. Software production and research & development are the main activities pursued by the wholly-owned subsidiary, Eurosoftware s.r.o. Major work on programming and further technological developments for the solutions provided by GK Software take place at the Plzen site. TOV Eurosoftware UA in Lviv has been an additional wholly-owned subsidiary of GK Software SE and a site for customised software development since the beginning of 2016.

GK Software AG has another wholly owned subsidiary in Dübendorf in Switzerland called StoreWeaver GmbH. StoreWeaver GmbH has a German branch in St. Ingbert in the German state of Saarland. The teams in St. Ingbert are primarily responsible for the onward development of customer projects and they also look after the customers of our SQRS solution (Solquest Retail Solutions).

AWEK GmbH, which focuses on providing services, is also a wholly owned subsidiary. It has its headquarters in Hamburg. AWEK Microdata GmbH, which is also wholly-owned, is based in Hamburg and has a business site in Bielefeld, specialises in the ongoing development of the euroSUITE checkout software for smaller and medium-sized enterprises and it looks after the installations where this software is in use. AWEK GmbH and AWEK microdata GmbH together form the IT Services division within the Group.

A solution based on cloud technology has been sold via DF Deutsche Fiskal GmbH, Berlin (formerly 1. Waldstraße GmbH, Schöneck, a company without any operating business, which had its name and headquarters changed in 2019) since the beginning of 2020, in order to meet the tax law requirements covered by the heading "German fiscalisation".

GK Software SE has its own sales organisation in Russia in the form of OOO GK Software RUS. GK Software USA Inc. was founded in the USA in December 2013 in order to support the expected expansion of our North American business locally through an organisation of our own. GK Software Africa (Pty) Ltd was set up in South Africa at the beginning of 2015 for the same reason to serve African customers.

prudsys AG is based in Chemnitz. prudsys AG, in which GK Software SE has an eighty percent holding, develops the Group's solutions based on the use of artificial intelligence methods and they are linked to the core solutions from the Group via the AIR platform concept (Artificial Intelligence for Retail) in line with customers' requirements. valuephone GmbH, which was fully acquired in the summer of 2018, was merged with GK Software SE with effect from 1 January 2019. GK Software had already been selling the mobile customer solutions that it develops since 2017.

The Management Board of GK Software SE consists of the company founder Rainer Gläss (CEO, Strategy, Marketing & Sales) and André Hergert (Finances). The Management Board is supported by a Group Management Board, which consisted of the following members in firth half year 2020: Michael Jaszczyk (CEO of USA, with responsibility for North and South America), Harald Göbel (Senior Vice-President at GK Software SE, with responsibility for Europe, the Middle East and Africa) and Michael Scheibner (Chief Strategy Officer). The latter joined the Group Management Board during the course of the 2019 financial year.

The three-man Supervisory Board at GK Software SE was led by the Chairman Uwe Ludwig until 11 March. He had been a member of the Supervisory Board since 2001 and had to retire from his position at this time for health reasons. In response to an application by the Company's Management Board, Chemnitz Local Court appointed Dr Philip Reimann as a member of the Supervisory Board and its Chairman on 24 March 2020. He was then elected to the Supervisory Board at the annual shareholders' meeting on 30 June 2020. He has been appointed until the end of the Company's annual shareholders' meeting, which will make a decision on approving the actions of the Company for the 2024 financial year. Thomas Bleier was elected to the Supervisory Board in 2003. His period in office was confirmed until the annual shareholders' meeting in 2022 at the annual shareholders' meeting in 2018. Herbert Zinn was first elected to the Supervisory Board at the annual shareholders' meeting in 2011. His current period in office ends with the annual shareholders' meeting in 2023.

Control parameters for the Group

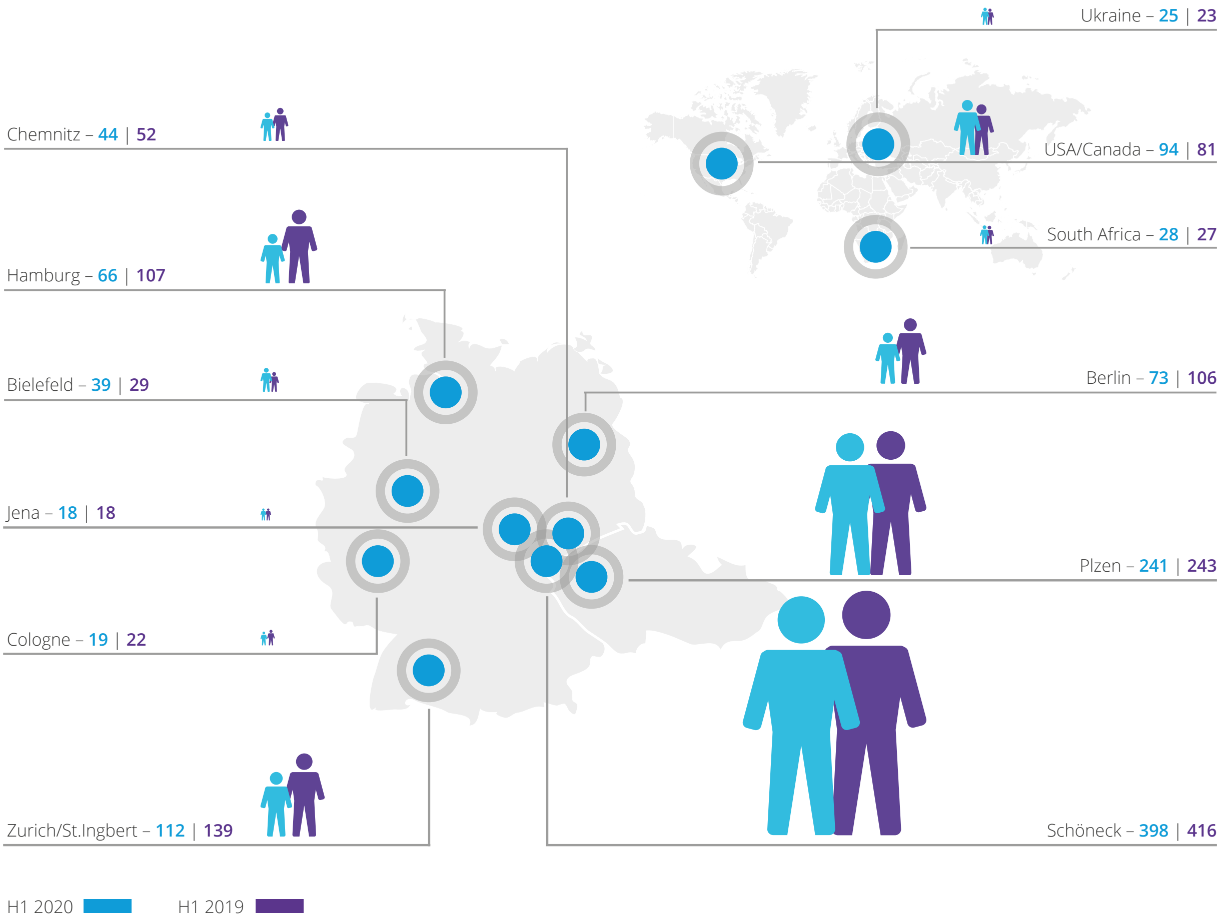
Management of the Group is largely determined by two control parameters: turnover and revenue; two main elements are largely used to determine the latter: earnings before interest and taxes (EBIT) and earnings before interest taxes depreciation and amortisation (EBITDA) as well as the relationship between these two revenue factors and turnover (operating performance).

Alongside these two group control parameters, we continue to use the margin of gross profits on turnover. We view gross profits as the surplus achieved by turnover for services purchased from third parties, semi-finished products and goods, which are used to directly provide this turnover, in order to be able to view the effect and degree of outside services on the turnover that is achieved.

This system of key performance indicators, which is geared towards earnings capacity, is accompanied by KPIs, which deal with the funding for the group. The issue here is the ability of the Group to be able to service its financial obligations at any time, both in the long and short term. The key performance indicators used here concern the equity ratio and the capitalisation ratio in different variants as a measure of matching the maturities of assets and the capital used to fund them. Another major aspect concerns the Group's ability to be able to make use of investment opportunities that arise at very short notice. A central KPI here is the surplus of cash and cash equivalents over interest-bearing liabilities. Depending on the goal of the approach, there are variants for this KPI too.

Distribution of employees at group business locations (from 5 employees) on 30 June 2020

F.04



Personnel

1,123 people in all were employed within the Group on the reporting date of 30 June 2020 (excluding members of the Management Board and trainees). This means that there are 124 fewer employees than on the same reporting date in the previous year (1,247). A large number of the Group's employees, 398, (416 in the previous year), continue to work at the business site in Schöneck. The Berlin branch of GK Software SE currently has 73 employees working in the sales & marketing, project and partner management and development fields (the figure was 106 in the previous year). The number of people employed at the Czech subsidiary Eurosoftware s.r.o in Plzen declined to 241, two less than in the previous year. 66 people were employed in the IT Services division in Hamburg at the end of the first half of the year (H1 2019: 107). It was particularly necessary to reduce the number of mobile service technicians, as orders no longer existed for them. 39 people were employed at the second IT Services site in Bielefeld (29 in the previous year) and they mainly work on software development. 108 people were working at the business site in St. Ingbert at the end of the reporting period (H1 2019: 134). 4 people were working in Dübendorf at this time, one fewer than twelve months ago.

The number of employees working at the branch in Cologne was 19 – the figure was 22 on 30 June 2019. 94 people were working for GK Software in the USA (H1 2019: 81). The South African subsidiary employed 28 people on the reporting date (27 in 2019). The number of people employed at the business site of the Ukrainian subsidiary in Lviv has risen from 23 to 25 since the middle of 2019.

prudsys AG in Chemnitz employed 41 people on the reporting date, compared to 52 at the same time in the previous year. The Group pools its expertise in the field of artificial intelligence at this business site.

Huge investments have been made in training and developing employees for years in order to be able to provide a foundation for and boost growth in turnover at GK Software from a human resources point of view too. Most of our employees attended training courses at the GK Academy (some of them on more than one occasion), for example. New employees undergo extensive and standardised introductory courses, while a permanently adapted training programme is made available to all employees too. The range of online training courses has also been extended, and this increases the potential number of those attending them. The Company is also actively involved in training new or future employees. They include trainees on apprenticeship courses, students from universities of cooperative education or students on sandwich courses. These different measures are already providing the first success stories in attracting new employees and the aim is to further intensify them in future.

Products and services

The cloud4retail platform

GK Software is convinced that only innovative, market-driven retail companies with optimised logistics will be able to survive in the omni-channel world, which is already a powerful driving force. Retail companies are therefore increasingly becoming technology-oriented companies, which have to be capable of mapping all their consumers' needs on one modern technological platform. At the same time, it will be necessary to ensure that the increasing degree of complexity is not handled by more and more solutions that are running alongside each other. The main task therefore involves reducing the complexity through a suitable platform solution again and creating solutions that remain operable and manageable for the users despite growing demands, particularly from consumers. The Company's current slogan “Simply Retail” takes this into account. The modern platform, to which the different services for making available shopping baskets, finding prices, promotions, mobile customer loyalty or artificial intelligence are linked, is the cloud4retail platform. If necessary, customers can combine services and have them hosted in a private, hybrid or public cloud.

In line with this aspiration, GK Software is following the idea of creating a unified and end-to-end technological platform, which, in the end, pursues the goal of enabling a consistent and personalised consumer experience via all the so-called customer touch points. It must also be possible within this standard platform to create special expansion opportunities for each of the Company's customers in order to map the individual excellence and the creativity of each retail firm. After all, the latter forms the basis for the specific competitive benefits and unique characteristics of any retailer and ensures that it is perceived as a separate brand within the large number of providers in the retail sector.

The retail sector faces a number of major challenges for the future and this process is being driven by e-commerce. In order to cope with this digital transformation process, the retail sector has to find the correct answers to five main fields of digitalisation, in GK Software's view. In our opinion, they are: customer-centredness, smart retail technologies, expansion, process automation and the consumer supply chain. A customer-centred approach has a very high priority and means that all the processes and functions always have to be considered from the point of view of customers. The rapid speed of technological developments permanently enables new technologies and devices to be used and checks need to be made to see whether they improve the shopping experience for customers and open up new opportunities. In contrast to the cut-throat competition created by online retailers, classic retailers will need to seek to expand into new markets, enable franchise concepts or verticalise their business even more strongly than in the past. The optimisation of business processes on the basis of new technologies - artificial intelligence and machine learning should particularly be mentioned here - will also significantly strengthen efficiency in many fields of activities. Not least, the retail trade will have to extend and improve supply chains to customers by using omni-channel concepts in order to offer them the same experience as e-commerce traders. All these processes, which are relevant to competition issues, demand a far greater use of modern technologies, end-to-end concepts and innovative approaches - and they are exactly what have been included in the architecture of OmniPOS.

This is why the Company has made such significant investments during the last few years in order to enable the process of digital transformation with specific solutions. This has meant that significant parts of the range of solutions have been newly developed in order to safeguard the future viability of the GK range of solutions for years to come and not just rely on the status quo. The results of this fundamental management decision are not as clearly evident at first glance as the switch from DOS to Java was, for example. However, if we view the effect resulting from this, the expenditure associated with it and the dimension of this change in general terms, the step that has been taken in the field of software development is at least as great as the former one.

Omni-POS – POS functions at any place, at any time ad on any device

The new solution platform known as OmniPOS (POS = Point of Sale), which emerged from these investments, was initially brought on to the market at selected customers in a ramp-up phase, starting in 2015. This solution platform is far more than the preceding solution, GK/Retail POS (version 12), which is in use at most customers. The fundamental architecture idea behind OmniPOS involves being able to use nearly all the functions in a modular and distributed manner as well as with or without user interfaces. Each function must be usable as a central service, but also as a local instance and be secure across network boundaries. At the same time, the central services must be able to handle the simultaneous operation of very many clients at a data centre or in a (private) cloud. This is the only way of guaranteeing operations at thousands of checkouts, calculating prices at a web shop or safeguarding communications with a huge number of customer devices, all at the same time.

GK Software has managed to make available the first professional enterprise POS solution that operates fully in a cloud in the form of cloud4retail. GK Software can handle the full operations through this, including maintenance and offering complete services. One special feature is that OmniPOS can be used in the cloud either in the standard version or with customised adaptations. Retailers can therefore lower their long-term costs and gain greater flexibility and speed when introducing new business processes.

The various GK Software products are brought together in the cloud4retail platform with their specific features for the market. The Mobile Customer Assistant solution is part of the platform that is used in the projects in a modular way, depending on what the customer wants. Even the Fiskal Cloud fiscalisation solution and the AI modules are designed to be cloud services and therefore fulfill the guiding principle behind cloud4retail of achieving more flexible and more efficient architectures. All the solution components are fully based on the same infrastructure, the same programming paradigms, Java and other modern programming languages as well as open standards. This means that they do not depend on any particular hardware or operating system.

SAP is also selling almost the entire portfolio related to the cloud4retail platform with identical features using the SAP Omnichannel Point-of-Sale by GK, SAP Mobile Consumer Assistant by GK, SAP Store Inventory Management by GK, SAP Pricing by GK and SAP Frictionless Checkout by GK product names.

AIR - Artificial Intelligence for Retail

One unique feature of the cloud4retail platform of solutions is the use of artificial intelligence to optimise decision processes involving large amounts of data. As part of this, machine learning-supported personalisation allows customers to be addressed at all the touch points in a precise and targeted manner – whether in a store, on a mobile device or at a web store. Using AIR (Artificial Intelligence for Retail), GK Software has developed the first specifically retail-oriented services based on artificial intelligence in order to optimise retail processes. Retailers can automatically introduce many processes by using AIR – ranging from dynamic pricing to personalisation and even fraud detection – on the basis of machine learning and other AI methods. AIR is an AI platform that focuses on precisely tailored processes covering special challenges in the retail sector in its specific forms.

Suitable for any sector
The cloud4retail platform is not geared to any individual retail segment, but is equally suitable for all the formats and segments in the retail sector – ranging from small shops to department stores, from food retailers to fashion and even specialist retailers.

Suitable for any device
The architecture of the cloud4retail platform has been designed so that it is not just possible to use it with a particular type or class of device. The underlying open client concept ensures that nearly all standard devices can be used on the basis of the same cloud-enabled services. They include mobile and stationary checkouts using very different hardware, scales, self-checkouts, self-scanning devices, mobile data logging devices for employees, tablets or, not least, the wide variety of consumer smartphones.

OmniPOS for all store processes
OmniPOS provides store-based services and not only takes over the classic checkout functions within a store, but is geared towards handling all the store-related business processes associated with goods, money and customers. As a result, the services handle all the functions necessary to operate stores, ranging from promotion management to in-store merchandising or price labelling and even cash management.

Secure operations
The daily operations involving thousands of devices and the central services associated with these are a huge challenge for any retailer. The issues of configuration and monitoring are therefore a central element in the OmniPOS platform. Operations can either be guaranteed by the retailer itself or by GK Software or a partner in the form of a cloud service.

Integrating the peripherals
Retailer stores, particularly those in the food retail sector, are equipped with a wide range of different types of technology. The OmniPOS platform includes all these different peripheral items and handles the data supply and data removal in real time. This prevents any parallel flows of data and isolated solutions in stores, it simplifies operations for systems and it reduces costs in the long term.

Central services for all channels
One of the basic concepts of cloud4retail is that information for different channels and types of devices is made available centrally and can be requested by various data users. Price calculations (Central Pricing Engine), managing promotions (Central Promotions Engine) or storing and making available points or virtual credit (Stored Value Server) are crucially important in an omni-channel world. These solution components are core services and are available for all the retailer's channels with the same quality.

Ongoing product development
Investments were made in the ongoing development of the cloud4retail cloud solution and associated services like OmniPOS, Store Inventory Management, the Mobile Customer Assistant and AI-based solutions during the first half of 2020. Some of these solutions have already passed SAP's premium qualification process again. New products and functions are checked by SAP as part of this kind of product test and in each case the current version is approved for sale. GetMyGoods has also been developed as a BOPIS solution (buy online pickup in store) and made available in the market. "emailbon" has given the market a slim solution to prevent the printing of paper receipts. As far as Deutsche Fiskal is concerned, the solution, which had been largely completed by the beginning of April, has been adapted to meet the changes in requirements dictated by the BSI (Federal Office for Information Security).

Other solutions in the portfolio

Deutsche Fiskal
GK Software has been developing a solution to meet the new tax requirements that can be summarised under the heading of "German fiscalisation of till systems" since the end of March 2019 and is putting this on to the market through its subsidiary, DF Deutsche Fiskal GmbH. It was possible to make this available to customers for test purposes in a fully functional form on 1 April 2020. The background to this is that the German law requires digital certification of each receipt from 1 January 2020 onwards in order to initially pre-

vent value-added tax evasion. GK Software is not only providing a cloud solution for customers of the corporate group, but for all operators of till systems through Deutsche Fiskal. As the requirements in Germany in terms of cryptography and the security architecture are more complex than in any other EU member state, an exclusive partnership has been established with Bundesdruckerei (the Federal Printing Office). The cooperation arrangement means that Deutsche Fiskal is developing the cloud solution, while Bundesdruckerei is making available the certified technical security facilities and is hosting them at its high-security data centre. GK Software has pooled its activities related to German fiscalisation in its subsidiary known as “DF Deutsche Fiskal GmbH”. As a result of the tight timetables and the pressure on the companies involved, an order was published, which instructs the tax authorities not to challenge any infringements against the law related to fiscalisation before 30 September 2020. 15 federal states decided to extend the non-application rule until 31 March 2021 under certain conditions. This has reduced the possible window for generating turnover with the solution from Deutsche Fiskal during the 2020 financial year to an even greater degree.

Payment services
In the field of payment services, GK Software, in our view, offers a market-leading solution for handling payments in the USA in the form of TransAction+ and it is able to integrate a large number of point-of-sale systems and a large range of payment authorisation providers. It meets the highest data protection standards and supports credit and debit cards and gift vouchers, “electronic benefits” as well as handling cheque authorisation and accounting for payment providers in the USA. The software manages customer-oriented payment devices at the highest level.

The SQRS software package
When acquiring the assets of the former company known as Solquest GmbH, its range of solutions known as Solquest Retail Solutions (SQRS) was also taken over and they are still in use at three customers. The particular high-performance features of the software were in the areas of SAP integration and mobile solutions. The SQRS solutions were no longer marketed after the takeover of Solquest in order to keep the Group’s portfolio of products slim. However, minor adjustments are still being made as part of existing customer relations and they are handled by StoreWeaver GmbH. Alongside this, a migration path has been developed in order to provide a long-term perspective for the customers of the former Solquest GmbH company.

The euroSUITE solution from AWEK
GK Software develops and markets a solution for medium-sized retailers known as euroSUITE through its subsidiary, AWEK microdata GmbH, for customers in German-speaking countries and it complements the GK Software range.

Developing and adapting software
In addition to its products, GK Software also provides comprehensive software services. The most important component in this context involves customising and adapting software developments during the initial projects and subsequently introducing change requests, which are a permanent feature of most projects. They include, for example, adapting software that is already in productive use to broader customer requirements, such as integrating new bonus systems in the checkout environment. Classic issues like consulting, project management or training courses come under the heading of developing and adapting software too.

Maintenance and services
In addition to software maintenance that is subject to charges, where the aim is to eliminate errors and faults, GK Software offers other services to the retail trade. A customer care management department has been established as part of focusing the Company’s software service portfolio; it supports existing customers in a wide variety of tasks related to operating and adapting the solutions that they use. A special services department has also been made available to customers to help them continually optimise their productive applications and the way that they interact.

Partner training

The GK Academy is responsible for qualifying implementation partiers and customer employees as well as training GK Software workers. The Group is also training implementation partners in 2020, which can then introduce GK/Retail on their own.

Research and development

GK Software has always focused on the ongoing development of existing products and the development of new software solutions during the past financial years and they will be strategic competitive factors in the future too. This is also reflected in the ongoing increase in the number of employees working in this field.

GK Software is continually investing in research and development in order to maintain its leading technological position in the long term too. A distinction needs to be made here between applied research, which is handled by the Futurelab and its own innovation and research teams, and application-oriented product development. The expenditure for research amounted to EUR 0.62 million during the reporting period. The research teams are based at several of the Group's business sites. Application-related "product development work" is primarily conducted in Germany and the Czech Republic. Overall, about EUR 9 million was spent on this work during the past year.

Overall, GK Software spent EUR 9.5 million on research and development work during the reporting period, which amounted to about 17% of the Group's turnover.

Economic report

General economic and industry-related conditions

Business developments at GK Software are determined by several factors and their effects in different economic regions. The most important determining factors are the general economic conditions, the current situation and the expected business prospects for the retail sector.

With GK Software's business expansion into more and more economic areas, it goes without saying that the number of factors affecting its business have increased, as the situation in some individual markets may move in different directions in spite of global economic trends. However, this provides some detachment in the Company's general operations from the developments in its original core markets – primarily in Central Europe – without these markets losing their significance for GK Software in the foreseeable future. However, the first half of 2020 was influenced by Covid 19 in the area of new business in all markets and only a few projects were finalized. Regardless of this, both on the retail side and on the IT providers' side, the company very quickly switched to a largely digitalized cooperation in order to push projects forward and prepare decisions.

The global economy was hit harder by the pandemic in the first two quarters of 2020 than originally assumed by the IMF. As a result, the April outlook for the year was revised from -3 to -4.9 percent. The figures for industrialized countries (-8.0 percent) and emerging and developing countries (-3.0 percent) differ. At -7.8 percent, Germany is above the eurozone average of -10.2 percent[1].

In parallel with the basic economic trends in the markets served directly or through sales partners, the general trends in the retail sector are also an extremely important factor influencing the Company's business. The issue of omni-channel retailing continues to be a major area of focus, as it is exerting a huge influence on retailers' strategic decisions in all markets. Beyond this, the introduc-

1 – https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020

tion of genuine cloud services based on enterprise POS solutions is becoming increasingly important for all sizes of retailers. Long-term issues like demographic developments, new ways of establishing customer loyalty or internationalisation also remain important driving forces and are becoming more and more connected to the mega-trend of omni-channel retailing. GK Software responded to these priorities in the retail sector at an early stage and made significant preparations for the future through OmniPOS. The cloud4retail cloud platform and the Mobile Customer Assistant customer loyalty solution are further strengthening the competitive position of OmniPOS. We are also expecting the same effect from integrating solutions on the basis of artificial intelligence. We are also addressing the fuel station and smaller retailer market segments with our new solutions known as GK Drive and retail7.

Even though the licensing business in the first half of the year was again powered by customers from outside the German-speaking countries, the developments in Germany, Austria and Switzerland continue to remain very significant for the direct business of GK Software, as this is an internationally leading market in the sector and many existing customers have their headquarters there. The German retail trade, Europe's largest single market, experienced varying development in the first six months depending on the sector. While sectors such as supermarkets and hypermarkets were able to grow significantly (+6.6 percent in real terms), others such as textiles, shoes, leather goods (-29.8 percent in real terms) or department stores (-17.7 percent in real terms) lost massively.[1] It is highly likely that this will also have an impact on retailers' willingness to invest. The trade association assumes, in a scenario for 2020 without a second wave, a decline in sales of four percent, with sales of food retailers and online retailers rising significantly and those of non-food retailers falling.[2]

1 – https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/07/PD20_289_45212.html

2 – https://einzelhandel.de/presse/aktuellemeldungen/12806-hde-szenario-fuer-2020-nicht-lebensmittelhandel-verliert-40-milliarden-euro-umsatz

In June, sales in the European retail sector returned to the pre-crisis level of February 2020.[3] Revenue also rose again in the UK, in June almost reaching the previous year's level.[4] Similarly, in the USA, a continuous upward trend in retail sales has been observed in recent years, which has caused more movement in the world's largest retail market and this trend appears to be continuing.[5] Year-on-year, sales in June rose by 1.1 percent.[6]

Developments in interactive retailing, i.e. mainly e-commerce and the mail order business without any services, continue to be dynamic. This division again increased its sales by 9.2 percent to around EUR 36.7 billion in the reporting period. This trend is expected to continue until the end of the year. According to initial estimates, online turnover in the current year is expected to be approx. EUR 80.0 billion[7]. This trend is even clearer in other important, leading retail markets like the United Kingdom. However, it is not yet observable to the same degree everywhere. While the share of the online retail trade amounts to more than 11.0 percent of the total retail sector in the USA[8], the figure was only 3.7 percent in Italy or 5.4 percent in Spain, for example[9]. It is generally assumed, however, that online retail sales will continue to grow in all developed retail markets.[10]

The omni-channel retailers continued to grow disproportionately in 2020, increasing their sales by 13.3 percent to around 25.7 billion euros, while the classic pure online marketplaces grew by around 10.8 percent to 33.9 billion euros. This means that brick-and-mortar retailers, who have also mastered their e-commerce business, have increasingly been able to leverage the advantages

3 – https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/08/PD20_294_45212.html

4 – https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/poundsdatatotalretailsales

5 – http://ycharts.com/indicators/retail_sales

6 – https://nrf.com/media-center/press-releases/june-retail-sales-increase-recovery-remains-uncertain-amid-coronavirus

7 – https://www.bevh.org/presse/pressemitteilungen/details/e-commerce-plus-von-92-prozent-im-1-halbjahr-2020-dauerhaft-mehr-e-commerce-beim-taeglichen-beda.html

8 – https://www.emarketer.com/content/us-ecommerce-2020

9 – https://www.retailresearch.org/online-retail.html (2020 estimated; figures for Germany vary according to source)

10 – https://www.statista.com/statistics/379046/worldwide-retail-e-commerce-sales/

of combining a branch and web shop.[1] This is clear from the subdivision: Omni-channel purchasers were responsible for 75 percent of expenditure, although they only represented 58 percent of purchasers in terms of numbers.[2] GK Software has been preparing its solutions for this development by moving in the direction of successful omni-channel retailing for years and therefore believes that it is in an excellent position to meet the relevant demands. These unabated developments are triggering huge challenges for the in-store retail sector and the challenges are also being driven by other innovations.

General assessment of the course of business

For the 2020 financial year, the Management Board had made the forecast that, due to the Corona/Covid 19 crisis, revenue would only increase slightly compared with 2019, but that the EBIT margin achieved would be significantly improved compared with 2019.

In the course of the 2020 business year so far, GK Software was able to continue its growth course, even under the adverse conditions of the corona pandemic, and increased its sales by almost 12 percent or 5.89 million Euro to 56.16 million Euro compared to the previous year. This result was achieved despite the fact that, under the current circumstances, it was not necessarily possible to develop new business to the extent that we had hoped before the pandemic-induced crisis. Developments in the market regions also show a continuation of the positive trend shown in 2019.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 6.24 million, compared to EUR -0.59 million in the previous year, and were thus EUR 6.82 million higher than in the previous year. Earnings before interest and taxes (EBIT) reached EUR 1.96 million and were EUR 6.95 million higher than the previous year's figure of EUR -5.00 million.

1 – https://www.bevh.org/fileadmin/content/05_presse/Pressemitteilungen_2020/200121_-_Pra__sentaion_fu__r_PK_FINAL.pdf

2 – https://einzelhandel.de/images/presse/Pressekonferenz/2019/Fruehjahrs-PK/PK_Charts.pdf

Overall, these developments so far exceed the forecasts for 2020, which were made as a result of the economic crisis caused by the Corona pandemic. Compared to the same period of the previous year, sales grew stronger than expected and EBIT improved considerably compared to the same period of the previous year. Against this background, the Management Board continues to assume that the forecast made in the annual financial statements for 2020 is achievable, provided that no new unexpected burdens on the overall economic situation arise as a result of a resurgence of the pandemic and corresponding economic reactions.

Customers

GK Software's customers come from almost all areas of the retail sector and are distributed around the globe. The important market sectors, where the Company is active, are primarily the food retail sector, drugstores & household goods, fashion & lifestyle. DIY & furniture markets or technology & cars. The products and services are mainly geared towards large and medium-sized enterprises and are particularly suitable for customers with many stores in several countries. Of the TOP 50 retailers, GK Software counts 10 among its customers. GK Software has a total of 290 customers of varying sizes.

In the period under review, the Group acquired 2 new customers for GK/Retail and 1 new customer for Prudsys. In the area of existing projects, the first half of 2020 was also characterized by extensive new orders, pilot starts and rollouts in several projects and an intensive change request business. OmniPOS was sold as a cloud version for the first time and successfully rolled out to other customers from various retail segments and went into operation successfully for the first time in Colombia and at another US customer. Several existing customers are currently considering whether to switch to OmniPOS. Some customers, which have been using GK/Retail for a long time, have already decided to introduce it and some of them have already put the solution into productive use in several countries. We handed over and rolled out more country-specific versions in several ongoing projects. We have also been able to sign further contracts with existing customers and they cover, for example, extensions to licencing agreements or developing and adapting software or other services.

SAP and GK Software continued to deepen their partnership in 2019 and developed joint solutions that are tailored to the SAP Customer Experience strategy. GK Software has 130 customers through the SAP Reseller agreement.

New presentation of sales

Starting with this report, we will present the different types of revenue in a new way to provide more transparency and clarity, while at the same time taking into account the technical migration of our solutions to a cloud-based platform, which has been underway for the past two years.

This is based on the following considerations: GK Software produces business software for the retail trade for the organization of its branch and sales processes. In order to be able to depict the great variety of these processes in reality and to save our customers from having to adapt their business processes to the software used, our software products follow a platform concept. In this way, the diverse characteristics of these business processes can be taken into account depending on general factors such as (among others) the respective retail segment or location and the operational practices of the respective customer, while at the same time ensuring a rapid response to change and expansion requirements. The platforms thus combine the advantages of standard software with the need for individual adaptability. These service contents should be reflected in the now applied revenue classification and presentation. The following section describes this structure and explains the contents of the services.

The standard platforms of the GK Software unite the application cases that typically occur together for the organization of the *technical structures* (data structures, data supply and disposal, end devices etc.), the *business logic*, the *customer communication* and of AI-use cases on our AIR platform. These standard platforms ("standard products") are offered for use and are remunerated either with one-off payments ("perpetual license") or in the form of recurring subscription payments ("subscriptions"). Such compensation is recognized as revenue from platform licenses (previously: product licenses).

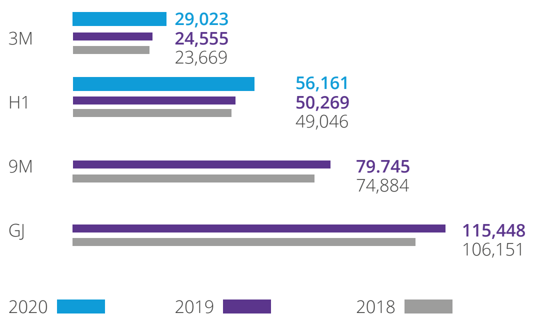
These standard platforms are supplemented by individual extensions that extend or change the functional scope of the standard platforms. The customers choose whether or not they want to supplement the extensions with a software maintenance contract as well (such extensions are called platform extensions). The extensions that are not subject to maintenance - usually these are smaller software modules - are called Smart Extensions. Revenues for platform extensions are referred to as "Revenues from platform extension licenses" (previously: "License revenues from custom software"). Revenue accruing to the Group from Smart Extensions is recognized as "Revenue from Software - Smart Extensions". Previously, this amount was not recorded separately but was reported as part of service revenues.

The disclosure of revenues received from a software maintenance agreement remains unchanged. If a license agreement is made, a software maintenance agreement is always concluded. This maintenance agreement covers the continuous improvement of the standard software products with regard to performance, correct functionality and security. The maintenance agreements also cover work that should become necessary if the platforms do not operate as described.

In addition to these services - always related to the use of the licensed software - GK Software offers its customers services for the operation of the existing platforms. These services are either agreed upon in individual contracts in special

Quartaly sales development compared to previous years in EUR K

F.05



operational situations of the customers or on a permanent basis. These services are referred to as (Cloud) Operations Support. In the past, if these services were provided on a permanent basis, they were recorded as "maintenance revenues".

The new introduction of a standard platform has resulted in services for the necessary integration of the new platform into the existing customer systems. These services - just like those in short-term contracts for operational support - will going forward be recorded as "Retail Consulting".

Revenues from the sale or staging of hardware, revenues from the reimbursement of expenses, etc. are also recorded under "Other".

With this new presentation method, we are eliminating the item revenue from services, which regularly accounted for more than 50 percent of the total revenue recorded, and are better able to distinguish the classic recurring and repeated revenues from those of a non-recurring nature. We believe that this is important information for the addressees of this report. Furthermore, a long-term comparison to the old structure is possible by adding the new lines "Smart Extensions" and "Retail Consulting" to the old line "Services".

Explanation of the business results and an analysis of the assets, financial and earnings situation

The 1st half of 2020 saw a further expansion of the business of GK Software. With sales of EUR 56.16 million, the previous year's figure of EUR 50.27 million was again significantly exceeded. The growth in our core business segment GK/Retail continues to drive this development. Revenues here rose by EUR 6.32 million (+ 13.7 percent) to EUR 52.64 million.

The IT services business segment continued to decline as planned and generated revenues of EUR 3.52 million in the first half of 2020, EUR 0.43 million less than in the previous year. The success of our solution for the small and medium-sized retail trade "Eurosuite" can be positively noted. In the first half of the year, sales with this solution increased by almost 7% or 0.12 million euros to 1.86 million euros.

These increases in sales were achieved on an operating cost base that was slightly reduced by EUR 0.23 million compared to the same period of the previous year - i.e. excluding depreciation. The balance of these two developments led to an increase in EBITDA from EUR -0.59 million to EUR 6.24 million. At EUR 1.96 million, EBIT was EUR 6.95 million higher than in the first half of 2019. Due to the negative financial result (EUR -0.99 million after EUR -0.81 million), earnings before taxes (EBT) were EUR 0.97 million (previous year EUR -5.80 million). This is offset by tax expenses totaling EUR 1.11 million, resulting in a loss for the period of EUR -0.13 million (prior-year period: EUR -6.49 million).

T.04 Total operating revenue

	30.6.2020 EUR K	30.6.2020 in %	30.6.2019 EUR K	30.6.2019 in %	Change	Change in %
Sales	56,161	96.8	50,269	97.7	5,892	11.7
Own work capitalised	134	0.2	—	—	134	—
Operating revenues	**56,295**	**97.0**	**50,269**	**97.7**	**6,025**	**12.0**
Other operating revenues	1,743	3.0	1,180	2.3	563	47.7
Total operating revenues	**58,038**	**100.0**	**51,449**	**100.0**	**6,588**	**12.8**

Earnings situation

- Sales at 56.16 million euros
- EBITDA at 6.23 million euros

The total sales of the corporate group increased by almost 12 percent from 50.27 million Euros to 56.16 million Euros, 52.64 million of which were accounted for by the core segment GK/Retail, which means a considerable increase of 13.7 percent.

For the IT service, the expected decline in revenue generated within the area of hardware services continued as a result of our efforts to discontinue active operation of this business unit. Sales here fell from EUR 3.95 million to EUR 3.52 million. This fall was exclusively due to the hardware services. Our software solution euroSUITE, which is operated in this segment, was able to increase its revenues by EUR 0.12 million or 6.7 percent over the previous year to a total of EUR 1.86 million.

Due to the opposing development of the two segments, the importance of the core business segment GK/Retail increased further. This segment now accounted for 94 percent of total revenue, while just over 6 percent was attributable to the IT services segment.

Looking at the revenue structure by segments and revenue types, the following picture emerges for the GK/Retail segment.

As expected, license business for standard platforms was weaker this year than in the same period of the previous year. Restrictions due to the avoidance of further spread of the Covid 19 pandemic hindered the work of the sales department by travel bans and contact (prohibition) regulations, so that in the first half of the year, compared to the previous year, license revenues for standard platforms of EUR 3.88 million were recorded, after EUR 5.09 million were recorded here in the same period of the previous year.

However, this decline was offset by the development of revenues from platform extensions. Here, revenues from licenses for platform extensions amounted to EUR 10.31 million, exceeding the previous year's figure of EUR 4.75 million by EUR 5.56 million, thus more than doubling this revenue type. Revenues from Smart Extensions also increased further. These rose by more than 30 percent from EUR 17.63 million to EUR 22.80 million. This development fundamentally strengthens the future revenue base in this segment, as future recurring revenues will be generated via the extensions platform.

The development of software maintenance revenues was characterized by a slight overall increase of 3.4 percent, which was caused by the new business of previous years. Overall, maintenance revenues increase by EUR 0.33 million to EUR 9.20 million of which EUR 0.33 million were generated by GK/Retail and EUR 0.19 million by IT Services.

This means that software-related sales in the core of EUR 36,65 million in the first half of 2019 increased by more than 20 percent to EUR 45.95 million. At the same time, pure service revenues in retail consulting and (cloud) operational support fell by almost 31 percent from EUR 11.28 million to EUR 7.79 million. This is mainly due to the decline in revenues in Retail Consulting, which is attributable to lower standard platform license revenues in 2019 and 2020 compared with previous years.

In the IT Services segment, the decline in total revenue for this segment of EUR 0.43 million is attributable above all to the decline in revenue from (cloud) operating support in the hardware area. These fell by EUR 0.49 million and were fortunately partially offset by successful sales in the area of our "Eurosuite" solution for small and medium-sized enterprises: License revenues for the standard platform amounted to EUR 0.27 million, exceeding the prior-year figure many times over. Maintenance revenues for the Eurosuite were also increased by EUR 0.19 million compared to the previous year.

Turnover according to segments

T.05

EUR K	GK/Retail H1 2020	GK/Retail H1 2019	IT Services H1 2020	IT Services H1 2019	Group H1 2020	Group H1 2019
Turnover with third parties	**52,638**	**46,315**	**3,523**	**3,954**	**56,161**	**50,269**
Licenses	36,028	27,062	947	741	36,975	27,803
License Platform	2,918	5,054	265	38	3,183	5,092
License Platform Extension	10,313	4,746	0	0	10,313	4,746
Smart Extension	22,797	17,262	682	703	23,479	17,965
Maintenance	9,919	9,585	824	636	10,743	10,221
Software Maintenance	9,919	9,585	824	636	10,743	10,221
Retail Consulting	6,142	8,937	1,647	2,346	7,789	11,283
Retail Consulting	3,632	5,234	0	213	3,632	5,447
(Cloud) Operations Support	2,510	3,703	1,647	2,133	4,157	5,836
Others	549	731	105	231	654	962

For the first time in a long time, GK Software has capitalized its own services again; these services concern the product “Fiscal Cloud” whose technical implementation at the beginning of April 2020 can be described as successful and whose applicability for the entire market can be considered as proven with the signing of the first contract with a reseller. Here, EUR 0.13 million were recorded.

At EUR 1.74 million, other operating income was up over the same period of the previous year (EUR 1.18 million). This increase is mainly due to currency gains (EUR 0.39 million) and the release of current provisions (EUR 0.24 million). With regard to the foreign exchange gains, it should be noted that there is an offsetting item in other operating expenses which offsets this item.

This results in a total operating performance of EUR 59,04 million for the financial year (after EUR 51.45 million in the previous year).

The cost of semi-finished products, goods and purchased services increased significantly in the first half of 2020 compared with the same period of the previous year. In particular, the cost of purchased services rose from EUR 2.13 million in the first half of 2019, increased by EUR 1.65 million to EUR 3.78 million. The reason for this is the effort to make capacity more flexible and to outsource certain tasks to third parties rather than having them carried out by own resources.

Personnel expenses now amounted to EUR 38.52 million, after the first half of 2019, this had still amounted to EUR 39.34 million. The decline is mainly due to the efforts during the second half of 2019. If the personnel costs had remained at the level of the second quarter of 2019, the personnel costs during the first half of 2020, would have been EUR 2.04 million higher. This was also expressed in the way that the number of employees developed. As of June 30th, 2019, the Group had 1,247 employees, compared with 1,123 as of June 30th, 2020.

At EUR 9.29 million, other operating expenses were down EUR 1.02 million on the prior-year figure of EUR 10.31 million. The main changes relate to the significantly reduced travel expenses, which were EUR 1.05 million lower than in the previous year and still amount to EUR 1.01 million. Other important changes have resulted from participation in trade fairs as part of the efficiency program; these costs were reduced by EUR 0.47 million in the first half of the year compared with the same period of the previous year. Employee retention expenses were also reduced, primarily due to the closure of the employee canteen in Schöneck due to Covid-19 (EUR -0.28 million) and the reduction of costs for data traffic, which were cut by EUR 0.13 million as part of the efficiency improvement measures - despite the higher level of utilization. These effects are offset by increased expenses for currency losses of EUR 0.76 million and general expenses, which increased by EUR 0.41 million.

In summary, this led to EBITDA of EUR 6.24 million, following a figure of EUR -0.59 million in the previous year.

Depreciation and amortisation amounted to EUR 4.28 million, compared with EUR 4.41 million in the first half of the previous year. This is due to lower depreciation for low-value assets and the expiring of existing leasing contracts.

In total, this results in an EBIT of EUR 1.96 million, after EUR -5.00 million in the previous year.

The financial result in the first half of the year In the first half of 2020, the company posted a deficit of EUR 0.99 million. This deficit amounted to EUR 0.81 million in the previous year, which was EUR 0.18 million lower. This was caused by increases in interest expenditure, which was EUR 0.15 million higher than in the previous year. Of the interest expenses, EUR 0.31 million were attributable to the interest portion of the liabilities from leasing and rental agreements and pension commitments. In fact, interest of EUR 0.43 million was paid in the first half of 2020 (after 0.31 million in H1 2019).

This results in earnings before taxes (EBT) of EUR 0.97 million, after EUR -5.80 million in the previous year.

Earnings figures

T.06

	30.6.2020		30.6.2019		Change	
	EUR K	in % [1]	EUR K	in % [1]	EUR K	in %
EBITDA	6,235	11.1	(586)	(1.2)	6,821	—
EBIT	1,957	3.5	(4,997)	(9.9)	6,955	—
EBT	972	1.7	(5,805)	(11.5)	6,777	—
Group result	(133)	(0.2)	(6,486)	(12.9)	6,353	97.9

1 - Margin on turnover

Income taxes of EUR 1.11 million (previous year EUR 0.68 million) were recorded for this pre-tax result. This results in a net loss for the period of EUR -0.13 million. In the same period of the previous year, this figure was EUR -6.49 million.

Assets situation

Total assets amounted to EUR 108.34 million as of the reporting date and were thus EUR 5.85 million lower than the previous year's figure of EUR 114.19 million.

Non-current assets amounted to EUR 57.35 million and were thus EUR 3.27 million lower than the value on the reporting date of the previous fiscal year. Current assets excluding cash and cash equivalents were reduced by EUR 5.78 million compared with the end of the year and now amount to EUR 39.67 million. At the same time, cash and cash equivalents increased by EUR 3.20 million to EUR 11.29 million.

The Group's equity amounted to EUR 44.13 million as of the reporting date, an increase of EUR 1.80 million compared with the end of the 2019 financial year. Non-current liabilities decreased by EUR 2.60 million to EUR 30.08 million. Current liabilities also decreased by EUR 5.06 million to EUR 34.12 million.

This resulted in an equity ratio of 40.7 percent (37.1 percent at the end of 2019).

Assets situation

T.07

	30.06.2020		31.12.2019		Change	
	EUR K	in %	EUR K	in %	EUR K	in %
Non-current assets	57,347	52.9	60,621	53.1	(3,274)	(5.4)
Current assets without cash and cash equivalents	39,698	36.7	45,482	39.8	(5,784)	(12.7)
Cash and cash equivalents	11,290	10.4	8,086	7.1	3,204	39.6
Assets	**108,336**	**100.0**	**114,190**	**100.0**	**(5,854)**	**(5.1)**
Equity	43,410	40.1	42,328	37.1	1,081	2.6
Non-current liabilities	30,809	28.4	32,688	28.6	(1,879)	(5.7)
Current liabilities	34,117	31.5	39,174	34.3	(5,056)	(12.9)
Liabilities	**108,336**	**100.0**	**114,190**	**100.0**	**(5,854)**	**(5.1)**

The development of the balance sheet since December 31, 2019, is characterized by the positive business development of GK Software during this period. This had a positive effect on liabilities to banks, which were reduced considerably (EUR -8.16 million), and on cash and cash equivalents, which increased by EUR 3.20 million.

The non-current assets decreased by EUR 3.27 million. This change is mainly due to the scheduled depreciation of all classes of property, plant and equipment and intangible assets. Goodwill, which now has a book value 31 thousand euros higher due to exchange rate adjustments, is not subject to scheduled amortization. The book value of own work capitalised also increased, in this case the development of the "Deutsche Fiskal" solution. Here, the capitalization of EUR 133 thousand and the opposing write-downs on the portfolio led to an increase in the portfolio to EUR 133 thousand.

Deferred tax assets decreased by a further EUR 0.30 million compared with the balance sheet date of 31 December 2019. These changes are mainly the result of tax effects of pension provisions. The deferred tax assets recognised as a result of these effects amount to EUR 0.31 million.

The EUR 5.78 million decline in current assets (excluding cash and cash equivalents) in the first half of the year is primarily due to the EUR 5.71 million decline in trade receivables and the decline in other receivables and assets, which is offset by an increase in contract assets of EUR 1.74 million to the current level of EUR 16.02 million.

The decline in receivables since December 31, 2019, reflects the increased sales in December and the improved receivables management processes.

Cash and cash equivalents amount to EUR 11.29 million, which is EUR 3.20 million higher than the figure of EUR 8.09 million at the end of the fiscal year. We would refer you to the explanations on the development of the financial situation.

Non-current liabilities fell by EUR 1.88 million compared with the reporting date of December 31, 2019, to EUR 30.08 million. The long-term leasing and rental liabilities to be reported in accordance with IFRS 16 have fallen by EUR 0.96 million due to the reclassification to current liabilities and now amount to EUR 5.32 million. Pension provisions were slightly reduced by EUR 0.14 million. Non-current bank liabilities are reduced by EUR 1.17 million due to the scheduled reclassification of amounts due for payment within the next twelve months to current bank liabilities. In contrast, deferred tax liabilities increased by EUR 0.30 million. This increase is due to tax effects of the treatment of pension provisions and intangible assets.

In the area of current liabilities, current leasing liabilities amount to EUR 2.68 million and are reduced by EUR 0.05 million due to the expiry of leasing and rental agreements. However, the main change here relates to the development of current bank liabilities. These now amount to only EUR 6.86 million and are EUR 7.00 million lower than on 31 December 2019, mainly due to the reduction in the amount of funds drawn from current account lines.

Financial situation

Cash and cash equivalents in the Group amounted to EUR 11.29 million on 30 June 2020, EUR 3.20 million higher than at the end of 2019.

This resulted from the following developments. Cash flow in the narrower sense - i.e. without the change in net current assets - increased by EUR 7.15 million to EUR 6.60 million compared with the previous year's figure.

In the first half of the year, this cash flow is relieved by the change in net current assets of EUR 7.07 million. In the previous year, there was still a charge of EUR 1.22 million here. This change is mainly due to the reduction in trade receivables by EUR 5.84 million (this effect was only EUR 0.48 million in the same period of the previous year) and the increase in contractual liabilities by EUR 3.34 million (in the previous year a reduction of EUR 0.22 million). Taking into account payments for interest and income taxes, the net cash inflow from operating activities amounted to EUR 13.44 million, compared with an outflow of EUR 1.94 million in the same period of the previous year.

Investment activities resulted in disbursements of EUR 0.81 million, which were offset by interest received of EUR 0.03 million. The outflow from investment activities was thus EUR 1.66 million lower than in the same period of the previous year. With the completion of the investments at the Schöneck site, the investment behaviour is once again limited to equipping IT workplaces. As capacity is being developed at a much more moderate pace, the necessary investment in expansion is also much lower.

Financing activities were characterised by redemption payments amounting to EUR 4.69 million. EUR 1.45 million were also spent on the repayment of leasing liabilities. After interest payments, a cash outflow of EUR 5.56 million remains from financing activities.

Overall, cash and cash equivalents increased by EUR 3.20 million to EUR 11.29 million during the first half of the year. The financial resources fund (balance of cash and cash equivalents and utilisation of current account credit lines) was increased by EUR 6.68 million to EUR 8.97 million. With current account lines/credit card lines of EUR 2.32 million being used, the Group had unused credit lines of EUR 15.28 million available on the balance sheet reporting date.

The Group's financial managers are seeking to meet the goal of guaranteeing that the company is able to service its loans and debts at all times and have adequate liquidity to secure investment projects; it therefore places the highest priority on maintaining capital.

Starting from July 1st, 2020, EUR 34.12 million in current liabilities will have to be serviced in the following twelve months. These liabilities are offset by cash and cash equivalents of EUR 11.29 million and current liquid assets of EUR 39.70 million.

The Management Board believes that it has established an adequate funding framework and funding opportunities for the Group's current potential in normal circumstances. The general conditions for funding need to be constantly compared with investment opportunities and adjustments have to be made, if necessary.

The developments to date in the COVID 19 crisis and their impact on the general environment of the group and its financial situation in particular have proved to be robust. The 2019 efficiency programme continues to provide a stable basis for dealing with the situation. The control and budgeting processes now established should also have created cost flexibility beyond the usual scope, so that even deep cuts can be responded to quickly and appropriately. Our statements on the opportunities arising from the crisis remain unchanged, so that the Management Board continues to look to the future with confidence, if not optimism, then at least with confidence.

Despite this, commercial prudence is required to determine all the possible ways of achieving secure funding, even in the crisis, and, if possible, adopting these courses. The major uncertainty is primarily the unknown length of the current situation.

Financial and non-financial performance indicators

Financial performance indicators. It should be noted that the key indicators, on which the financial data is based, are very much connected to each other. As a result, the development of these figures largely depends on the development of two key indicators. These are turnover and earnings. In order to normalise tax effects, GK Software uses earnings before income taxes and the financial results (EBIT) and the margin on operating performance derived from this and figures derived from these like earnings before interest taxes, depreciation and amortisation (EBITDA).

T.08 Financial performance indicators

		30.6.2020	30.6.2019
Gross earnings margin on turnover	%	96.2	97.6
Personnel ratio	%	68.6	78.3
EBITDA margin on operating performance	%	11.1	(1.2)
EBIT margin on operating performance	%	3.5	(9.9)
Equity ratio	%	40.1	37.1
Investment ratio I	%	52.9	53.1
Excess in cash and cash equivalents over interest-bearing liabilities	EUR K	(539)	(11,907)

The key performance indicators listed above help to analyse developments and discrepancies from plans. For example, the personnel ratio is an important figure for analysing the development of the earnings situation. On the other hand, this largely depends on the "turnover" key performance indicator and any deterioration in its value may express both wrongly established production apparatus and missing the target figure for the "turnover" key performance indicator. However, this can be directly deduced. In this sense, these key indicators are important aids in analysing developments, but are not control parameters in themselves.

Non-financial performance indicators. Management largely observes key figures in sales activities when it comes to non-financial performance indicators. There are two key values here: customer satisfaction and the number of customer contacts. They are not observed in a formalised manner, but are documented and assessed through regular reports about existing projects and sales activities with possible new customers and are presented to the responsible members of the Group Management Board and the Management Board and then assessed. Decisions about ongoing actions and procedures are made at an individual case level. Overall, we expect customer satisfaction to continue to improve.

Report on the Risks and Opportunities for the GK Software Group

Regarding the business development of the first six months of the year 2020, the general development of the environment allows us to come to the fundamental opinion that the risk structure of the corporate group has not changed significantly compared to the presentations about chances and risks for the GK Software since the annual accounts 2020. The significance of the Covid-19 crisis appears to be somewhat less pronounced, but general attention is needed to respond to rapid and surprising developments. The Management Board has therefore decided to regard the analysis of opportunities and risks as largely unchanged.

Overall risk position

The overall risk position means all individual risks to which GK Software is exposed in its entirety. There are no discernible risks that could pose a threat to the company's existence. The Group's overall risk position improved again in the course of the 2019 financial year following a deterioration during the year.

Covid-19

The renewed review of the recorded risks did not result in any significant changes to the risk structure for the "normal" circumstances of the forecast report. With the emergence of the new variant of coronavirus, however, a set of risks has been added, whose effects are difficult to assess. It is becoming increasingly clear that for the national economies, especially in those countries taking severe defensive measures, there will be a largely indefinite but significant lag effect.

The issue raised by this concerns the effects of this crisis on GK Software's general business environment and particularly its financial situation.

The crisis is having effects on the operating business of our customers and therefore, e.g. on their investment and demand behaviour as well as their asset, financial and revenue situation. It is also having effects on various company departments at GK Software. We are trying to meet the risks that result from these by adopting very different sets of measures. Hygiene measures have been intensified to protect our employees and work from home has been almost exclusively introduced on a temporary basis. At the same time, control and budgeting processes for turnover, costs and liquidity have been adapted to the situation.

The Management Board believes that it has created a stable basis for the Group to cope with the current situation and future risks through its current, normal cost flexibility and its efficiency programme that it launched last year.

We closely observe the development in the countries in which GK Software is active and also keep ourselves informed with regard to possible programs for crisis management and support of companies in these countries.

However, it is still appropriate to refer to the opportunities GK Software is facing in the crisis and which will become manifest by the crisis.

Risk management system

The risk management system focuses on recognising risks at an early stage.

GK Software has performed a stocktake on the risks and classified them according to their type, the probability that they will occur and the consequences arising from them. Risk owners are assigned to the identified risks.

The process and methods of risk identification, evaluation and assessment are documented in a risk manual. This is regularly reviewed and developed.

The process initially involves recording all possible negative deviations from the specified company targets. In a further step, these deviations identified as risks are analysed in terms of their possible damage and probability that they will occur. The possible damage is determined by its negative impact on the company's development, assets, equity and liquidity. The effects of the risks are quantified as far as possible. The risks are grouped into risk areas.

The risks are categorised as follows:

	Probability of occurrence	Amount of damage
High	> 60%	> EUR 500 K
Medium	20% – 60%	EUR 100 K – EUR 500 K
Low	< 20%	< EUR 100 K

The risk matrix derived from this results in the classification into risks that pose a threat to the company's existence, significant risks and irrelevant risks. Depending on this, the possibilities of countermeasures to reduce the amount of damage and/or the probability of occurrence or the bearing of risk are derived.

The Management Board has appointed a risk manager who is responsible for regularly updating the risk inventory on a quarterly basis and reporting the results to the Management Board. Firstly, the risk manager obtains the necessary information from the risk owners as part of a formalised process. Secondly, they conduct informal discussions and evaluate other documents (including internal and external reports and minutes).

In the event of significant risks and, in particular, risks that pose a threat to the company's existence, the risk owners and all management employees are obliged to inform the risk manager immediately and comprehensively. Flat hierarchies, short communication channels and an open communication culture ensure that important risk information also reaches the Management Board immediately. The Supervisory Board is informed by the Management Board at least once a quarter, but usually more frequently, about important developments in the company.

Risks are recorded across the Group and therefore include all subsidiaries. Specific individual risks and general business risks are recorded and considered. Individual risks can together lead to cumulative risks. Changes to the measured values of accumulation risks are indicators of changes to individual risks.

The risk management scheme and early risk recognition do not consider positive opportunities separately. On the one hand, opportunities represent positive deviations from identified risks; on the other hand, opportunities are the subject of strategic corporate management.

Internal monitoring and risk management systems with regard to the Group's accounting process

The internal monitoring system of the GK Software SE and of the entire corporate Group comprises the principles, procedures and measures introduced by the Management Board for the organizational implementation of its decisions to ensure the effectiveness, efficiency and correctness of the accounting as well as the compliance with the legal provisions relevant for the company. GK Software SE (as well as the Group) is structured according to the responsibilities of the Management Board, whose different departments report to the responsible Management Board. The departments are subdivided into different cost centres, which each have a responsible head of department. The heads of department are either responsible for turnover and costs or only for costs.

The business release rules (requirement requests, purchase orders, invoice release, labour law agreements, submission of offers, customer contracts) are regulated by signature authorisations with value limits, which are regularly checked and adjusted as required. In addition to the release rules, GK Software SE has other guidelines for different areas of application (travel policy, anti-corruption guideline, procurement directive, company car guideline), which are also regularly checked and adjusted if necessary. Appropriate local regulations have been established in the Group companies.

The Group accounts and the accounts of the individual companies are organised and handled in-house, as is the financial accounting of GK Software and all the individual companies. GK Software completes the accounts for the German subsidiaries or branches of subsidiaries as part of agency agreements, with the exception of AWEK GmbH, AWEK Microdata GmbH and prudsys AG. The foreign Group companies each have their own accounting departments, which are responsible for the local accounts of the companies. The wage and salary administration for the German companies is carried out by GK Software as part of agency agreements.

The financial accounting of GK Software SE and some of its subsidiaries is carried out directly in the accounting software Microsoft Dynamics NAV (NAV). The individual accounts according to the local accounting standards of the other subsidiaries are imported in detail into NAV. The adjustment of the local accounts to the uniform Group accounting and valuation methods and the reconciliation to IFRS accounting are carried out centrally by the parent company's financial accounting department at the headquarters in Schöneck. The individual accounts are also consolidated centrally in Schöneck and in NAV. During the preparation of both the individual accounts and consolidated accounts, internal checks are in place under the "four eyes" principle to ensure the reliability of the individual and consolidated accounts.

The Controlling department, which is centrally located in Schöneck but has a Group-wide focus, prepares detailed monthly evaluations to show the development of the Group and the cost centres. The reports are made available to the cost centre managers with specific inquiries about conspicuous developments. The Management Board receives an overall report.

Risk reporting in relation to the use of financial instruments

Financial market risks The Group is exposed to risks associated with exchange and interest rates as a result of its business activities. The exchange rate risks result from the business sites maintained in different currency areas and increasingly from customer relations that go beyond the eurozone. The interest risks are the result of selected types of financing to enhance the Group's financial leeway.

Exchange rate risks arise from the Group's exposure to Czech crowns, Swiss francs, Russian roubles, South African rand, US dollars as well as Canadian dollars and Ukrainian hryvnia. The Group therefore accepts payment obligations arising from work, renting and leasing contracts in all these currencies. GK Software with its companies therefore not only issued invoices for sales and services in euros on the balance sheet reporting date, but also in Swiss francs, US dollars, Canadian dollars and South African rand. In order to be able to handle the Group's currency risks in a standard manner, GK Software SE tries to combine the currency risks internally. The Group carried out a sensitivity analysis to determine its risk of exposure to foreign currencies.

We normally handle business transactions in the operational currency of the Group firm concerned. Operational business transactions are not handled in the operational currency in individual cases so that there is a currency risk for monetary financial instruments. As of 30 June 2020, the Group had foreign currency receivables of approximately EUR 440 thousand that differed from local currencies. Currency rate fluctuations in conjunction with our original monetary financial instruments do not have any major effects on our profits. The Group's exchange rate risk sensitivity mainly increased due to the increased business activities in the US dollar region and in South Africa.

In the view of the Management Board, the sensitivity analysis, however, only reflects one part of the exchange rate risk, as the risk at the end of the reporting period only reflects the risk during the year to a certain extent. Risks exist in possible changes to exchange rates for services, which the Group companies provide to the parent company to settle in local currencies every month. In the first half of 2020, services totalling EUR 6.88 million were purchased which were paid in a currency other than euros. These service invoices were settled mainly by Group companies in Czech crowns, Russian roubles, Ukrainian hryvnia, Swiss francs or US dollars.

Interest risks result from taking out interest-bearing borrowings and from balance sheet items that contain an interest component.

When borrowing, the cash outflow resulting from the interest payments becomes the object of possible hedging measures. The risk is controlled by the Group by maintaining an appropriate ratio because it takes out a mixture of fixed and variable interest rates on funds. As a rule, long-term borrowings are made at fixed interest rates, while short-term borrowings are subject to variable interest rates or fixed interest rates with short fixed-interest periods.

Forecast report

Market environment

The German Retail Federation (HDE: Handelsverband Deutschland) is expecting nominal growth of 2.5 percent to EUR 557.2 billion for the entire retail sector in 2020.[1] However, all these forecasts have become obsolete as a result of the developments related to the spread of the new coronavirus. Parts of the retail sector have suffered massive sales losses due to the closure of their stores for weeks on end, while chain-store food retailing, for example, has experienced a special boom. A serious outlook on future developments in stationary trade is therefore still hardly possible. However, it is already apparent that online retailing has experienced a further boost and that the specialist retailers well positioned in the online business have been able to partially compensate for the losses in the stationary business.

The market research company, GfK, also had positive expectations about consumer confidence before the coronavirus crisis. This was supposed to remain stable in line with the studies that are available at this time. Overall, the GfK was expecting an increase in consumer expenditure in Germany of about 1.0 percent[2]. An increase in private consumption of 1.2 percent was also expected for the whole of the European Union.[3] "Digitalisation" is and remains a top issue for the retail sector. "The firms are investing heavily in appropriate applications and processes, both in the B2C and B2B sector," said the Deputy Director of the HDE, Stephan Tromp, commenting on the fact that 70 percent of retail companies in Germany are planning digitalisation projects during the next two years[4]. This statement is supported by the EHI Study entitled "Till Systems 2020" from the EHI Retail Institute that the fundamental digital structure in the retail sector needs to be expanded. In line with this, 58 percent of those questioned indicated that they wished to renew their POS software by 2020.[5] There are therefore expectations that the Covid-19 crisis will ensure a further boost, but it is impossible to reliably forecast its magnitude at the moment.

Overall, the need for investments by the retail trade was believed to be high before the outbreak of the pandemic, as the study published by the EHI Retail Institute entitled "IT Trends in the Retail Sector in 2019" indicates. 64 percent of those questioned believe that the renewal of their infrastructure (cloud and networks) and 39 percent believe that introducing omni-channel projects will be the most important IT projects during the next two years.[6] In the light of the lockout that is lasting for weeks and the closure of many shops in Germany, we will have to wait and see what this means for the retail sector's readiness to invest, as in-store turnover will collapse significantly in some sectors, while others, particularly the food or drugstore retailers, will experience an exceptional boom.

Another area predicted to become increasingly important is the topic of artificial intelligence. The "Smart Stores" white paper published by the EHI and Microsoft also shows that artificial intelligence (AI) is already being used at 69 percent of retailers or there are plans to introduce it.[7] The RIS News "Store Experience Study 2020" shows that the retailers questioned want to increase their IT expenditure by 4.2 percent annually on average in order to, for example, personalise the customer experience, make stocks more visible or strengthen store employees in order to improve customers' experiences in stores.[8] There is much ground to be made up in Germany in fields like

1 – https://einzelhandel.de/presse/aktuellemeldungen/12529-innenstaedte-als-handelsstandort-unter-druck-hde-prognose-fuer-2020-umsatzplus-von-2-5

2 – https://www.gfk.com/de/insights/press-release/konsumoptimismus-kehrt-zurueck/

3 – https://ec.europa.eu/commission/presscorner/detail/en/ip_20_232

4 – https://einzelhandel.de/index.php?option=com_content&view=article&id=12357

5 – EHI Retail Institute, POS Systems 2020, p.20

6 – https://www.ehi.org/de/pressemitteilungen/handel-investiert-in-infrastruktur/

7 – https://www.ehi.org/de/pressemitteilungen/ki-wichtigster-zukunftstrend-im-handel/

8 – https://risnews.com/rebirth-resilient-store-2020-store-experience-study

home delivery, for example. The market share of online retailing in the whole food market is only 3.8 percent in Germany[1]. Different concepts are increasingly being tested in Germany at the moment like store-based deliveries, click-and-collect or central warehouse-based deliveries. These positive market trends have also been significantly reflected in the discussions that GK Software is holding with existing customers and potential interested parties. The IT departments at retailers are also focusing on other issues related to technologies and processes, for which GK Software is in an ideal position with its new GK/Retail OmniPOS solution.

Company outlook

The efficiency improvement programme launched in the first half of 2019 due to the unsatisfactory development is being continued in the current year, 2020. The stabilisation of business success in both Americas (North and South America) also allows us to expect further progress in these regions and this will make further positive results probable, particularly with a view to the complete use of personnel capacity. The first six months of 2020 have been developing positively in comparison to the previous year and the financial indicators recorded significant positive growth compared to the admittedly unsatisfactory results during the same period in the previous year.

In light of this, the prerequisites for the business development of GK Software were clearly positive until the beginning of the Covid-19 crisis, meaning that the Management Board still considered the forecast for 2020 as a goal that could still be achieved in February 2020 and even saw further potential for improvement. This was supported by the fact that GK Software was assuming that it would be able to continue expanding its potential customer base internationally after the latest project successes in North and South America or in the Middle East. Based on the current course of the financial year, at least a slight improvement in revenue is expected compared with the figure for 2019.

Even though we believe that the first six months have gone well, that extremely pleasing business figures were achieved in July and that there are still good signs for the second half of the year, it is not possible at present to make any predictions for the year as a whole. For a very good performance in the second half of the year, it will be essential that sales activities are not hindered by a renewed flare-up of the pandemic. Such a hindrance would not only affect the own activity of GK Software, but would first of all increase the uncertainty in the national economy once again and thus considerably burden investment decisions.

GK Software is currently in an excellent position in many ongoing tender procedures in different regions of the world and has important advantages over its competitors with its innovative, broad portfolio of products, the internationality of its solutions and its proven ability to introduce projects quickly. This makes us optimistic about increasing the number of customer contacts in the following business year.

In light of the high level of customer satisfaction achieved compared with the reference year of our medium-term forecast in 2017, we expect a further improvement in the values measured here. The growing direct presence in market regions in which the Group companies are already active will significantly promote this development. We also believe that this positive development will not be affected by the Coronavirus/Covid-19 crisis.

1 – HDE: Handelsreport Lebensmittel Online 2017, p. 8

General statement for 2020

We continue to adhere to our statements from the annual financial statement 2019 and believe that on the basis of the described assumptions and influencing factors, we will record a slight increase of sales revenues and a significant improvement of the EBIT for the GK Software Group.

These statements continue to be subject to the considerable reservation that it is difficult to estimate the duration and depth of the Corona crisis and its consequences in the various regional markets in which the Group operates, so that actual developments may differ considerably from this assessment.

The Management Board

Rainer Glaess
Chief Executive Officer

André Hergert
Chief Financial Officer

C
Consolidated accounts

Consolidated Balance Sheet

on 30 June 2020

Assets

T.09

EUR K	30.6.2020	31.12.2019
Property, plant and equipment	15,257	16,988
Right of use assets IFRS16	7,871	8,914
Real estate held as a financial investment	7,042	6,350
Intangible assets	26,750	27,607
Financial assets	9	49
Active deferred taxes	418	713
Total non-current assets	**57,347**	**60,621**
Goods	30	35
Unfinished goods and services	0	381
Auxiliary materials and supplies	318	0
Initial payments made	9	8
Trade accounts receivable	18,275	23,982
Trade accounts receivable from ongoing work	16,020	14,278
Income tax claims	667	820
Other accounts receivable and assets	4,379	5,978
Cash	11,290	8,086
Total current assets	50,988	**53,568**
Balance sheet total	**108,335**	**114,189**

Liabilities

T.10

EUR K	30.6.2020	31.12.2019
Subscribed capital	2,042	2,023
Capital reserves	28,081	27,332
Retained earnings	31	31
Other reserves	(1,224)	(1,670)
Profit brought forward	13,545	16,682
Shortfall for period minorities interests	(153)	(3,137)
Equity attributable to GK Software SE stockholders	42,322	41,261
Equity attributable to noncontrolling interest	1,087	1,068
Total equity	**43,409**	**42,329**
Provisions for pensions	2,621	2,765
Non-current bank liabilities	4,966	6,133
Non-current leasehold liabilities	5,319	6,279
Convertible bond	13,938	13,826
Deferred government grants	788	812
Deferred tax liabilities	3,177	2,872
Total non-current liabilities	**30,809**	**32,687**
Current provisions	1,083	1,418
Current bank liabilities	6,864	13,861
Current leasehold liabilities	2,683	2,735
Liabilities from trade payables	2,852	2,484
Initial payments received	6,890	3,547
Income tax liabilities	553	428
Other current liabilities	13,192	14,700
Total current liabilities	**34,117**	**39,173**
Balance sheet total	**108,335**	**114,189**

Consolidated Statement of Income and Accumulated Earnings

for the financial year from 1 January until 30 June 2020

Consolidated statement of income and accumulated earnings

T.11

EUR K	H1 2020	H1 2019	FY 2019
Ongoing business operations			
Turnover revenues	56,161	50,269	115,448
Own work capitalised	133	—	—
Other operating revenues	1,743	1,180	3,837
Turnover and other revenues	**58,037**	**51,449**	**119,285**
Materials expenditure	(3,996)	(2,381)	(6,229)
Personnel expenditure	(38,517)	(39,342)	(78,134)
Depreciation and amortisation	(4,277)	(4,411)	(8,826)
Other operating expenditure	(9,290)	(10,312)	(22,666)
Total operating expenses	**(56,080)**	**(56,446)**	**(115,855)**
Operating results	**1,957**	**(4,997)**	**3,430**
Financial income	30	61	74
Financial expenditure	(1,015)	(869)	(2,271)
Financial results	**(985)**	**(808)**	**(2,197)**
Income tax results	**972**	**(5,805)**	**1,233**
Income taxes	(1,105)	(681)	(4,372)
Consolidated shortfall / surplus for the period	**(133)**	**(6,486)**	**(3,139)**
of which attributable to noncontrolling interest	20	7	(2)
of which attributable to GK Software SE stockholders	(153)	(6,493)	(3,137)
Other results after income taxes			
Items, which will be reclassified in the consolidated profit and loss statement in future under certain conditions			
Differences in exchange rates from recalculating foreign business operations	361	(130)	90
Items, which will not be reclassified in the consolidated profit and loss statement in future			
Actuarial gains/ losses from defined benefit pension plans	85	(232)	(879)
Overall results	**313**	**(6,848)**	**(3,928)**
of which attributable to noncontrolling interest	20	7	(2)
of which attributable to GK Software SE stockholders	293	(6,855)	(3,926)
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - undiluted	**(0.08)**	**(3.37)**	**(2.70)**
Earnings per share (EUR/ share) from the consolidated surplus/ shortfall - diluted	**(0.08)**	**(3.37)**	**(2.70)**

Consolidated Cash Flow Statement

for the financial year from 1 January until 30 June 2020

Cash flows from operating business

T.12

EUR K	H1 2020	H1 2019
Cash flows from operating business		
Surplus/ shortfall for period	(133)	(6,486)
Share option scheme (non-cash expenditure)	192	221
Income taxes affecting results	1,105	682
Interest expenditure affecting results	1,015	869
Interest income/ expenses affecting results	(30)	(61)
Profit/ loss from the sale or disposal of property, plant and equipment	(10)	(3)
Reversals of deferred public sector subsidies	(24)	(24)
Write-downs recognised for receivables	86	289
Write-ups recognised for receivables	(217)	(29)
Depreciation and amortisation	4,278	4,412
Net profits from financial tools assessed at their fair value	66	(11)
Other non-cash revenues and expenditure	270	(410)
Cash flow from operating business	**6,598**	**(551)**
Changes in net current assets		
Changes in trade accounts receivable and other receivables	5,613	(146)
Changes in inventories	67	(7)
Changes in trade accounts payable and other liabilities	(1,147)	(1,192)
Changes in initial payments received	3,344	(221)
Changes in provisions	(808)	344
Income taxes paid	(227)	148
Net inflow of funds from operating activities Amount carried forward	**13,440**	**(1,625)**

Cash flows from investment and financing activities, loans and cash and cash equivalents

T.13

EUR K	H1 2020	H1 2019
Amount carried forward **Net inflow of funds from operating activities**	**13,440**	**(1,625)**
Cash flow from investment activities		
Payments for property, plant and equipment and non-current assets	(809)	(2,461)
Proceeds from disposals of fixed assets	10	3
Interest payments received	27	23
Net cash outflow for investment activities	**(772)**	**(2,435)**
Cash flow from financing activities		
Taking out equity	577	541
Taking out loans	0	1,500
Interest paid	(429)	(311)
Repayment of loans	(4,689)	(1,501)
Issue of convertible bond	(1,448)	(1,357)
Net inflow (previous year: net outflow) in cash from financing activities	**(5,989)**	**(1,128)**
Net outflow of cash	**6,679**	**(5,188)**
Cash at the beginning of the financial year	2,291	6,144
Cash at the end of the financial year	9,041	1,014
Impact of changes in exchange rates on cash	71	58

Summary of cash and cash equivalents

T.14

EUR K	H1 2020	H1 2019
Liquid assets	11,290	5,563
Utilisation of current account credit/ credit card/ exchange rate	(2,249)	(4,549)
Cash and cash equivalents at the end of the financial year	**9,041**	**1,014**

Consolidated Statement of Changes in Equity

for the financial year from 1 January until 30 June 2020

Consolidated statement of changes in equity

T.15

EUR K	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Earnings attributable to GK Software SE stockholders	Equity attributable to GK Software SE stockholders	Equity attributable to non-controlling interest	Total
Figures on 30 June 2019	**1,941**	**22,177**	**31**	**(1,245)**	**10,188**	**33,092**	**1,077**	**34,169**
Share option scheme	2	294	0	0	0	296	0	**296**
Convertible bond	80	4,861	0	0	0	4,941	0	**4,941**
Allocation based on IAS 19	0	0	0	(646)	0	(646)	0	**(646)**
Allocation based on IAS 21	0	0	0	221	0	221	0	**221**
Consolidated profit/ loss for the period	0	0	0	0	3,357	3,357	(9)	**3,348**
Figures on 31 December 2019	**2,023**	**27,332**	**31**	**(1,670)**	**13,545**	**41,261**	**1,068**	**42,329**
Share option scheme	19	749	0	0	0	768	0	**768**
Allocation based on IAS 19	0	0	0	85	0	85	0	**85**
Allocation based on IAS 21	0	0	0	361	0	361	0	**361**
Consolidated surplus/ shortfall for the period	0	0	0	0	(153)	(153)	20	**(133)**
Figures on 30 June 2020	**2,042**	**28,081**	**31**	**(1,224)**	**13,392**	**42,322**	**1,088**	**43,410**

We would refer you to 4.3. 'Equity' for further explanations.

Notes on the Consolidated Accounts

For the financial year from 1 January until 30 June 2020

1. Principles of Reporting

1.1. General information

GK Software SE is a public limited company based in Germany. The address of the registered headquarters and head office for business operations is Waldstrasse 7, 08261 Schöneck.

GK Software SE is registered in the Commercial Register at Chemnitz Local Court under reference number HRB 31501.

The promised change in legal form for GK Software from a public limited company (AG) to a European share company (Societas Europaea/SE) was formally completed through the entry in the Commercial Register on 19 January 2018. The annual shareholders' meeting had adopted this change on 22 June 2017 in line with a draft resolution suggested by the Management Board and the Supervisory Board.

The Group's business involves the development and production of software and hardware and sales and trade in this field.

1.2. Consolidated companies and consolidation principles

The four German and six foreign subsidiaries named on 31 December 2019 remain part of the group of consolidated companies without any changes, alongside the parent company. Two more German subsidiaries were also included in the consolidated accounts on 30 June 2020; they were still being set up on the reporting date. The companies, Retail7 GmbH and R7MA Beteiligungs GmbH, were included as fully consolidated firms. Neither of them has yet started operating as a business.

There have not been any changes to the consolidation principles since the financial statement relating to 31 December 2019 either. We would therefore refer you to chapter 1.3. "Consolidated companies and principles of consolidation" in the notes on the consolidated accounts in the 2019 annual accounts (Financial Statement for 2019, pages 70f).

2. Segment reporting

There were no changes to the organisational structure of the segments needing to be reported during the current financial year. The composition of the “Miscellaneous” segment has been modified by the assignment of the two newly founded firms.

The distribution of turnover according to products and business activity areas can be summarised as follows:

T.16 Turnover according to segments

EUR K	GK/Retail H1 2020	GK/Retail H1 2019	GK/Retail FY 2019	IT-Services H1 2020	IT-Services H1 2019	IT-Services FY 2019	Others H1 2020	Others H1 2019	Others FY 2019
Turnover with third parties	**52,638**	**46,315**	**107,074**	**3,523**	**3,954**	**8,374**	**0**	**0**	**0**
Licenses	36,028	27,062	62,035	947	741	2,196	0	0	0
License Platform	2,918	5,054	10,232	265	38	849	0	0	0
License Platform Extension	**10,313**	4,746	**9,946**	0	0	**0**	0	0	0
Smart Extension	22,797	17,262	41,857	682	703	1,347	0	0	0
Maintenance	9,919	11,211	25,652	824	636	5,297	0	0	0
Software Maintenance	9,919	11,211	25,652	824	636	5,297	0	0	0
Retail Consulting	6,142	7,311	17,726	1,647	2,346	572	0	0	0
Retail Consulting	3,632	5,234	12,692	0	213	410	0	0	0
(Cloud) Operations Support	2,510	2,077	5,034	1,647	2,133	162	0	0	0
Others	549	731	1,661	105	231	309	0	0	0
Turnover with other segments	**0**	**0**	**0**	**761**	**432**	**2,219**	**0**	**0**	**0**
Depreciation	**(3,874)**	**(4,038)**	**(8,071)**	**(271)**	**(271)**	**(542)**	**(133)**	**(103)**	**(213)**
EBIT segment	**1,356**	**(4,654)**	**4,413**	**595**	**(225)**	**(1,054)**	**6**	**(151)**	**72**
Assets	**98,413**	**102,582**	**104,996**	**8,652**	**6,887**	**8,144**	**8,601**	**6,339**	**7,187**
thereof long term [1]	48,841	54,831	52,222	2,134	2,544	2,384	7,042	5,927	6,349
Debts	**58,127**	**72,242**	**65,303**	**4,811**	**2,306**	**4,742**	**8,552**	**6,339**	**7,187**
Cash and cash equivalents	**11,219**	**5,541**	**8,064**	**22**	**22**	**22**	**49**	**0**	**0**

1 – Non-current assets, apart from financial instruments, deferred tax claims, benefits after the end of the working relationship and rights arising from insurance contracts

3. Accounting Methods

The same balance sheet and assessment principles were used as in the consolidated accounts on 31 December 2019. We would refer you here to chapter 2, “Accounting Methods” in the notes on the consolidated accounts in the 2019 annual accounts (Financial Statement for 2019, pages 73 ff.).

3.1. Significant Assessment Uncertainties and Discretionary Decisions

Assumptions have to be made to a certain degree when preparing the consolidated accounts and estimates are made, which have an effect on the amount and entry of the assets and liabilities on the balance sheet and the earnings and expenditure. There have been no changes to the assumptions and estimates in relation to the consolidated accounts on 31 December 2019, which is why we refer you to chapter 3 “Significant Assessment Uncertainties, Discretionary Decisions and Error Corrections” in the notes on the consolidated accounts in 2019 (Financial Statement for 2019, pages 83ff).

4. Notes on the Consolidated Balance Sheet

4.1. Non-financial assets and liabilities

4.1.1. Property held as a financial investment

The property held as a financial investment continues to involve the items named in the chapter 4.2.3. “Property held as a financial investment” (Consolidated Accounts for 2019, page 97). Further property belonging to the GK Software SE portfolio also continued to be rented in 2020.

Elimintations					Group
H1 2020	H1 2019	FY 2019	H1 2020	H1 2019	FY 2019
0	**0**	**0**	**56,161**	50,269	**115,448**
0	0	0	36,975	27,803	64,231
0	0	0	3,183	5,092	11,081
0	0	0	**10,313**	4,746	9,946
0	0	0	23,479	17,965	43,204
0	0	0	10,743	11,847	30,949
0	0	0	10,743	11,847	30,949
0	0	0	7,789	9,657	18,298
0	0	0	3,632	5,447	13,102
0	0	0	4,157	4,210	5,196
0	0	0	654	962	1,970
(761)	**(432)**	**(2,219)**	**0**	**0**	**0**
0	**0**	**0**	**(4,278)**	**(4,412)**	**(8,826)**
1	**31**	**(1)**	**1,958**	**(4,999)**	**3,430**
(7,331)	**(2,221)**	**(6,138)**	**108,335**	**113,588**	**114,189**
(1,097)	(1,097)	(1,097)	56,920	62,205	59,858
(6,564)	**(1,468)**	**(5,370)**	**64,926**	**79,419**	**71,862**
0	**0**	**0**	**11,290**	**5,563**	**8,086**

These property items are also being rented to a different associated company by means of a rental contract. Any developments resulting from this relating to the property held as a financial investment can be seen in the summary of fixed assets. The assess assessment methods and periods of amortisation have not been changed from those mentioned in the consolidated accounts for 2019.

This is the reason why transfers amounting to EUR 664 K were made from purchase costs and EUR 25 K from the depreciation on property, plant and equipment related to the property held as a financial investment. As a result, these figures increased by EUR 639 K.

4.1.2. Intangible assets

The intangible assets entered under the item entitled “In-house created intangible assets” increased by EUR 133 K as a result of the proportional capitalization of development costs for the Fiskal Cloud product, once important milestones had been reached.

For details on the assessment principles for “In-house created intangible assets”, we would refer you to chapter 2.4.2. entitled “In-house created intangible assets” in the 2019 financial statement (Consolidated Accounts for 2019, pages 76f).

4.2. Equity

For more information on the change to GK Software’s equity up to the balance sheet date on 30 June 2020, we would refer you to the ‘Consolidated Statement of Changes in Equity’.

The Company’s share capital amounted to EUR 2,042,450 on 30 June 2020 (EUR 2,023,300 on 31 December 2019) and was divided into 2,042,450 no-par value, individual share certificates each worth EUR 1. All the shares issued had been fully paid for by the reporting date. The changes resulted from exercising the share option scheme.

No shares were owned by GK Software on the balance sheet date.

5. Notes on the Consolidated Profit and Loss Statement

This item reflects the proportionate capitalised development costs amounting to EUR 133 K for the Fiskal Cloud product.

6. Notes on the Cash Flow Statement

We recognise any interest and taxes that have been paid in the cash flow from operating activities. Any interest received is shown in the cash flow from investment activities. Any dividends paid are considered in the cash flow from financial activities.

7. Items Not Entered

7.1. Contingent liabilities

No changes had taken place in terms of contingent liabilities since the 2019 consolidated annual accounts. This is the reason why we refer you to these in Chapter 7.1. “Contingent liabilities” (Consolidated Accounts for 2019, page 110)

7.2. Financial obligations

Neither GK Software nor its consolidated companies had engaged in any relevant purchase obligations by 30 June 2020. The obligations arising from leases and rental contracts were recognised on the balance sheet in line with IFRS 16.

7.3. Results after the reporting period

No relevant events took place after the reporting date.

8. Other Information

8.1. Earnings per share

The earnings per share are determined as a quotient of the total results and the weighted average of the number of shares in circulation during the financial year. The average number of shares in circulation during the first six months of the 2020 financial year was 2,017,136 (previous year: 1,929,552). The consolidated half-year loss for 2020 amounts to EUR 153 K (previous year consolidated half-year loss of EUR 6,486 K). As a result, the (diluted and undiluted) earnings per share in 2020 amounted to EUR (0.08) (previous year: EUR (3.37).

When calculating the diluted earnings per share, the total number of shares, the number of existing and possible new shares from the share option schemes and the convertible bond were all taken into consideration. The earnings from the period were also increased by the interest-rate advantage from the convertible bond and reduced by the resulting tax effect.

8.2. Details of associated persons and firms

There was no need for any expenditure on valuation adjustments or irrecoverable accounts receivable with associated persons or these items did not exist at all.

Any business transactions between GK Software and its consolidated subsidiaries were illuminated as part of the consolidation process.

8.2.1. Management Board

There was no change to the composition of the Management Board compared to the consolidated accounts for 31 December 2019.

There were no changes to the distribution of shares for members of the Management Board and Supervisory Board either.

8.2.2. Supervisory Board

The composition of the Supervisory Board was subject to the following change. The remaining members continued to hold office.

- Mr Uwe Ludwig, Neumorschen, Management Consultant, Chairman of the Supervisory Board (until 13 March 2020)

- Dr Philip Reimann, Hamburg, Solicitor and Tax Consultant, Chairman of the Supervisory Board (since 27 March 2020)

8.3. Statement of compliance

The German corporate governance code statement in line with section 161 of the Public Limited Companies Act was submitted and has been published on the homepage of GK Software SE in the "Corporate Governance" section at https://investor.gk-software.com.

8.4. Details of Group affiliation

GK Software SE, and therefore the GK Software Group, are subject to the direct control of GK Software Holding GmbH (HRB 24111 Chemnitz), which has its headquarters in Schöneck and is the senior parent company.

8.5. Day when the accounts were approved for publication

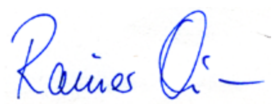
The Management Board cleared these consolidated accounts to be forwarded to the Supervisory Board on 27 August 2020. The Supervisory Board has the job of checking the consolidated accounts and stating whether it endorses them or not.

Guarantee by the Legal Representatives

We guarantee to the best of our knowledge that the consolidated accounts present a realistic view of the actual circumstances in the assets, financial and earnings situation at GK Software SE in line with the relevant accounting principles and that the consolidated annual report reveals the course of business including the business results and the situation within the Group in such a way that it communicates a view, which reflects the actual circumstances, and describes the main opportunities and risks for probable developments at the Company.

Schöneck, 27 August 2020

The Management Board



Rainer Gläss
Chief Executive Officer

André Hergert
Chief Financial Officer

Financial Calendar

16 – 18 November 2020
Analyst conference in Frankfurt/M.

26 November 2020
Interim statement as of 30 September 2020

28 April 2021
Annual report as of 31 December 2020

27 May 2021
Interim statement as of 31 March 2021

17 June 2021
Annual shareholders‘ meeting 2021 in Schöneck/V.

26 August 2021
Interim report as of 30 June 2021

November 2021
Analyst conference in Frankfurt/M.

25 November 2021
Interim statement as of 30 September 2021

Imprint/Notes

Imprint

Publisher:
GK Software SE
Waldstraße 7
08261 Schöneck

P: +49 37464 84-0
F: +49 37464 84-15

www.gk-software.com
investorrelations@gk-software.com

Chairman of the Supervisory Board:
Dr. Philip Reimann

Management board:
Dipl.-Ing. Rainer Gläß, CEO
Dipl.-Kfm. André Hergert, CFO

Commercial Register Chemnitz HRB 31501

USt.-ID. DE 141 093 347

Photos:
Image archive GK Software SE,
Title: istockphoto

Contact Investor Relations

GK Software SE
Dr. René Schiller
Friedrichstr. 204
10117 Berlin

P: +49 37464 84-264
F: +49 37464 84-15

rschiller@gk-software.com

Notes

Note to the Interim Report

This Interim Report is the English translation of the original German version. In case of deviations between these two the German version prevails. This Interim Reports in both languages can be downloaded at https://investor.gk-software.com.

Note regarding the rounding of figures

Due to the commercial rounding of figures and percentages small deviations may occur.

Disclaimer

This Interim Report includes statements concerning the future, which are subject to risks and uncertainties. They are estimations of the Board of Management of GK Software SE and reflect their current views with regard to future events. Such expressions concerning forecasts can be recognised with terms such as “expect”, “estimate”, “intend”, “can”, “will” and similar terms relating to the Company. Factors, which can have an effect or influence are, for example (without all being included): the development of the retail and IT market, competitive influences including price changes, regulatory measures and risks with the integration of newly acquired companies and participations. Should these or other risks and uncertainty factors take effect or should the assumptions underlying the forecasts prove to be incorrect, the results of GK Software SE could vary from those, which are expressed or implied in these forecasts. The Company assumes no obligation to update such expressions or forecasts.